ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN TWO PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO, AND (2) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE.	)	**CAUSE NO. 44305**
		APPROVED: APR 23 2014

ORDER OF THE COMMISSION

Presiding Officers:
Carolene Mays, Commissioner
Jeffery A. Earl, Administrative Law Judge

On February 21, 2013, CWA Authority, Inc. ("CWA") filed its Verified Petition in this Cause, seeking the following:

- Authority to increase its rates and charges for wastewater service in two phases;
- Approval of new schedules of rates and charges; and
- Approval of certain changes to its general terms and conditions for wastewater service.

On February 22, 2013, CWA filed the direct testimony and exhibits of the following witnesses:

- Carey B. Lykins, President and Chief Executive Officer of the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis d/b/a Citizens Energy Group ("CEG") and CWA;
- John R. Brehm, Senior Vice President and Chief Financial Officer at CEG;
- Steven M. Fetter, President of Regulation UnFettered, a utility advisory firm;
- William A. Tracy, Senior Vice President and Chief Operating Officer at CEG;
- Mark C. Jacob, Vice President Major Capital Project for CEG;
- Lindsay C. Lindgren, Vice President Water Operations at CEG;
- Jeffrey A. Harrison, Senior Vice President Engineering and Sustainability at CEG;
- Curtis H. Popp, Vice President Engineering and Shared Field Services at CEG;
- Aaron D. Johnson, Vice President Corporate Development at CEG;
- Ronnie D. Vincent, Senior Consulting Actuary at McCready and Keene, Inc.;
- Michael C. Borchers, Management Consulting Division Manager at Black & Veatch Corporation;
- Korlon L. Kilpatrick II, Manager of Rates & Business Applications at CEG;
- Sabine E. Karner, Director of Strategic Finance at CEG; and

- LaTona S. Prentice, Vice President Regulatory Affairs at CEG.

The following parties intervened in this Cause: the CWA Authority Industrial Group ("Industrial Group"), which includes Eli Lilly & Company, Ingredion, Inc., Rolls-Royce Corporation, and Vertellus Agriculture & Nutrition Specialties, Inc.; Whitestown Municipal Water Utility;[1] and the City of Indianapolis ("City").

In accordance with 170 IAC 1-1.1-15, the Commission held a Prehearing Conference and Preliminary Hearing on March 26, 2013, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. CWA, the Indiana Office of Utility Consumer Counselor ("OUCC"), and the Industrial Group appeared and participated in the Prehearing Conference. On April 3, 2013, the Commission issued a Prehearing Conference Order setting forth the procedural and scheduling details for this Cause.

The Commission held a public field hearing on May 16, 2013 in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Seven members of the general public testified at the field hearing, and the Commission entered the written comments it received from the public by the OUCC into evidence.

On August 23, 2013, the OUCC filed the direct testimony and exhibits of the following witnesses:

- Margaret A. Stull, Senior Utility Analyst in the OUCC's Water/Wastewater Division;
- Charles E. Patrick, Utility Analyst in the OUCC's Water/Wastewater Division;
- Edward R. Kaufman, Chief Technical Advisor in the OUCC's Water/Wastewater Division;
- Harold H. Riceman, Utility Analyst in the OUCC's Water/Wastewater Division;
- Larry W. McIntosh, Utility Analyst in the OUCC's Water/Wastewater Division;
- Harold L. Rees, Senior Utility Analyst in the OUCC's Water/Wastewater Division; and
- Jerry D. Mierzwa, Principal and Vice President of Exeter Associates, Inc. ("Exeter").

The OUCC filed revised testimony from Ms. Stull on September 4, 2013.

On August 23, 2013, the Industrial Group filed the direct testimony and exhibits of Harold J. Smith, Vice President of Raftelis Financial Consultants, Inc.

On September 13, 2013, CWA filed the rebuttal testimony and exhibits of Mr. Lykins, Mr. Brehm, Mr. Fetter, Mr. Jacob, Mr. Borchers, Mr. Kilpatrick, Ms. Karner, and Ms. Prentice. In addition, CWA filed rebuttal testimony from the following witnesses:

- M. Jean Richcreek, Senior Vice President and Chief Administrative Officer for CEG; and
- Ann W. McIver, Director of Environmental Stewardship for CEG.

Also on September 13, 2013, the OUCC filed cross-answering testimony from Mr.

[1] Whitestown later withdrew its intervention in this Cause.

Mierzwa, and the Industrial Group filed cross-answering testimony from Mr. Smith. On October 2, 2013, the Industrial Group filed revisions to Mr. Smith's testimony and exhibits, and the OUCC filed the revised testimony of Mr. Rees.

On October 11, 2013, CWA filed supplemental testimony from Ms. Prentice, which included a Stipulation and Settlement Agreement on Revenue Requirements entered into by CWA and the OUCC ("CWA-OUCC Revenue Agreement").

The Commission held an evidentiary hearing in this Cause on October 16-18, 2013, in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. CWA, the OUCC, the Industrial Group, and the City appeared and participated in the hearing.

On October 23, 2013, the Commission held a settlement hearing on the CWA-OUCC Revenue Agreement in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. CWA, the OUCC, the Industrial Group, and the City appeared and participated in the hearing.

On October 30, 2013, the Industrial Group filed a Stipulation and Settlement Agreement on Allocation Issues entered into by the OUCC and the Industrial Group ("OUCC-Industrial Group Cost Allocation Agreement"). On November 8, 2013, the OUCC filed the supplemental testimony of Mr. Mierzwa supporting the OUCC-Industrial Group Cost Allocation Agreement.

On November 21, 2013, the Commission held a settlement hearing on the OUCC-Industrial Group Cost Allocation Agreement in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. CWA, the OUCC, the Industrial Group, and the City appeared and participated in the hearing.

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

1. Notice and Jurisdiction. Notices of the hearings in this Cause were given and published by the Commission as required by law. CWA published notice of the filing of the Petition in this Cause and gave proper notice to its customers, which summarized the nature and extent of the proposed changes in CWA's rates and charges for wastewater service.

CWA was created by an Interlocal Cooperation Agreement entered into by the City, the Sanitary District of the City ("Sanitary District"), and CEG in accordance with Ind. Code ch. 36-1-7. In the Interlocal Cooperation Agreement, CEG vested CWA with its statutory powers to adopt rates and charges and terms and conditions for the provision of wastewater utility service under Ind. Code § 8-1-11.1-3(c)(9). That statute requires CEG, and by extension CWA, to seek Commission approval of its rules and rates for utility service. Therefore, the Commission has jurisdiction over CWA and the subject matter of this proceeding.

2. CWA's Characteristics. CWA is an Indiana non-profit corporation with its principal office at 2020 North Meridian Street, Indianapolis, Indiana. CWA furnishes wastewater utility service to residential, commercial, industrial, and other types of customers in and around Marion County, Indiana. CWA provides such service by virtue of its acquisition of certain wastewater system assets from the City and the Sanitary District, which was approved in the Commission's

July 13, 2011 Order in Cause No. 43936 ("43936 Order").

3. Test Year. The Prehearing Conference Order in this Cause defined the test year, which is used to determine CWA's actual and pro forma operating revenues, expenses and operating income under its present rates and charges and the effect of its proposed rates, as the twelve-month period ended September 30, 2012. We find the September 30, 2012 test year, as adjusted for changes that are fixed in time, known to occur, and measurable in amount, is sufficiently representative of CWA's normal utility operations to provide reliable data for ratemaking purposes.

4. Background and Relief Requested. Under Section 2.04 of the Asset Purchase Agreement, CWA assumed responsibility for performance of the City's and the Sanitary District's obligations under the terms of a Consent Decree entered by the U.S. District Court for the Southern District of Indiana, on December 19, 2006, in *United States and State of Indiana v. City of Indianapolis*, Cause No. 1:06-CV-1456-DFH-VSS, as amended ("Consent Decree"). In general, the Consent Decree requires the construction and implementation of a number of specific remediation measures designed to reduce combined sewer overflows ("CSOs") from the wastewater system into the City's rivers and streams.

The Sanitary District's rates and charges for wastewater utility service were adopted by Ordinance of the City-County Council on April 13, 2009, and were codified in Section 671-102 of the Revised Code of the Consolidated City of Indianapolis, Indiana. That Section of the Code provided for annual 10.75% increases to the Sanitary District's wastewater rates effective January 1, 2009 through 2013. The annual increases in the Sanitary District's wastewater rates were designed primarily to fund a portion of the capital cost of the CSO Projects mandated under the Consent Decree, to reduce CSO events, and to improve the aging Wastewater System.

The 43936 Order authorized CWA to adopt the schedules of rates and charges applicable to the provision of wastewater utility service by the Sanitary District, including authority to increase such rates by 10.75% in 2012 and 2013. Thus, in accordance with the 43936 Order, CWA's existing rates and charges were placed into effect on January 1, 2013.

CWA's Petition asserts that the current rates and charges for wastewater service result in the collection of revenues that do not meet the requirements of reasonable and just rates and charges set forth in Ind. Code § 8-1.5-3-8. In its case-in-chief, CWA sought Commission approval of revised schedules of rates and charges to be implemented in two phases: a Phase 1 increase, effective on or about January 1, 2014, to generate additional annual operating revenues of $44,348,957; and a Phase 2 increase, effective October 1, 2014, to generate additional operating revenues of $12,363,300. In rebuttal, CWA revised its Phase 1 proposed increase in pro forma operating revenues to $49,252,862 and its Phase 2 proposed increase to $12,315,688.

CWA proposed that its requested increases in operating revenues be recovered from customer classes based upon the results of a cost-of-service study prepared by Black & Veatch. CWA also proposed certain revisions to particular provisions of its terms and conditions for wastewater service.

5. CWA-OUCC Revenue Agreement. CWA and the OUCC agreed to the following about CWA's revenue requirements.

A. Terms of the Agreement.

1. Base Rate Relief. CWA's total pro forma operating revenues at present rates are $181,477,804. Upon the Commission's issuance of a final order approving their CWA-OUCC Revenue Agreement, CWA should be authorized to increase its rates and charges in Phase 1 to generate additional revenues of $39,115,178 to arrive at total operating revenues of $220,592,982. CWA should be authorized to increase its rates and charges in Phase 2, beginning on October 1, 2014, to generate additional revenues in the amount of $12,315,688 to arrive at total operating revenues of $232,908,670. The CWA-OUCC Revenue Agreement with respect to CWA's annual revenue requirements in Phase 1 and Phase 2 is summarized below:

	Phase 1	Phase 2
Operations and Maintenance Expense	$ 61,896,600	$ 62,358,159
Extensions and Replacements	46,000,000	46,000,000
Debt Service	101,989,261	114,141,150
Taxes	15,627,382	15,627,382
Revenue Requirement	225,513,243	238,126,691
Less: Other Income	168,275	$168,275
Connection Fee	5,213,545	5,213,545
Plus: Incremental Net Write-Off	461,559	163,799
Net Revenue Requirement	**$ 220,592,982**	**$ 232,908,670**
Pro Forma at Present Rates Revenues	181,477,804	220,592,982
Deficit	**$ 39,115,178**	**$ 12,315,688**
Percent Increase	**21.55%**	**5.58%**

2. Cost-of-Service and Rate Design. The CWA-OUCC Revenue Agreement acknowledges that CWA's rates should be designed to allocate the stipulated revenue requirements between and among CWA's existing customer classes in a fair and reasonable manner.

3. Debt Service True-Up. CWA plans to issue new debt around January 1, 2014 ("Phase 1 Debt Issuance") and around October 1, 2014 ("Phase 2 Debt Issuance"). In the CWA-OUCC Revenue Agreement, CWA agreed to file a true-up report and revised rate schedules within 30 days of each debt issuance, which provides details of that issuance. The OUCC and CWA agreed that for purposes of whether revised rates need to be implemented, the OUCC will determine whether a decrease is immaterial and CWA will determine whether an

increase is immaterial. Neither party may seek to overturn the other party's determination with respect to materiality or compel the other party to declare that an increase or decrease is immaterial. The parties also acknowledged that the Commission in its sole discretion may order CWA to file revised rates notwithstanding either party's determination that a prospective change is immaterial.

4. Debt Service Reporting and Other Debt-Related Issues. CWA agreed to provide a report regarding any long-term debt issuances. The true-up reports to be filed for the Phase 1 Debt Issuance and Phase 2 Debt Issuance satisfy CWA's obligation for those debt issuances. Any reports provided pursuant to Section IV of the Settlement Agreement approved in Cause No. 44053 will satisfy CWA's obligation under this Paragraph for debt issuances that are the subject of those reports.

CWA anticipated issuing its Phase 2 debt around October 1, 2014. The OUCC proposed in its case-in-chief that the Phase 2 rates should not be implemented sooner than twelve months after the Phase 1 rates were implemented. In the CWA-OUCC Revenue Agreement, the OUCC and CWA agreed that Phase 2 rates may be implemented on October 1, 2014, as proposed, but that if the Phase 2 Debt Issuance is not completed prior to November 1, 2014, CWA shall use incremental revenues as a result of the Phase 2 Increase as authorized and realized between October 1, 2014, and the date the Phase 2 Debt Issuance is closed as an offset to the funds borrowed in connection with the Phase 2 Debt Issuance. But no offset will be required if CWA shows it has had insufficient treatment volumes to allow it to bill the revenues approved for the Phase 1 and Phase 2 increases. The OUCC and CWA agreed to cooperate in good faith to finalize the methodology that will be used to implement this agreement.

5. Sanitary Sewer Master Plan. To the extent CWA updates the Marion County Sanitary Sewer Master Plan ("Master Plan"), a copy of the Master Plan will be provided to the OUCC and the Commission upon completion. If an update to the Master Plan has not been completed by the end of calendar year 2015, CWA will provide the OUCC and the Commission with an update on the status of any planned updates to the Master Plan.

6. Acquisition Savings. The OUCC and CWA agreed that no less than 90 days in advance of CWA filing its next rate case, CWA will collaborate with the OUCC in a meeting or meetings to discuss the presentation of testimony to be included in that case regarding savings achieved from the acquisitions and how such savings have affected the proposed rate increase pursuant to Paragraph 8(c) in the Settlement Agreement approved in Cause No. 43936.

7. Miscellaneous Tariff Revisions. The OUCC and CWA agreed that the miscellaneous revisions to CWA's tariff and terms and conditions for service set forth in Petitioner's Exhibits KLK-1 through KLK-4 and described in Mr. Kilpatrick's direct testimony should be approved by the Commission, with the exception of CWA's proposed changes to Rule 2.2 and certain additions to Rule 22.1 and the proposed change in section 4.3 based on the OUCC's concern of double recovery.

B. Evidence Supporting the Agreement. In their respective cases-in-chief, the OUCC and CWA agreed upon the appropriate amounts of several of the major components used

to determine CWA's cash revenue requirements. Specifically, CWA and the OUCC agreed on the amount of rate-funded extensions and replacements ($46,000,000) and debt service expense ($101,989,261 in Phase 1 and $114,141,150 in Phase 2). The OUCC's and CWA's primary areas of disagreement related to the amount of pro forma revenues at present rates and the appropriate ongoing level of CWA's operations and maintenance ("O&M") expenses. With respect to O&M expenses, the OUCC and CWA agreed upon the proper ongoing level of certain components of O&M expenses. No other party presented evidence or recommended any specific pro forma adjustments to CWA's statutory revenue requirement relating to any particular costs.

The evidence presented by the OUCC and CWA in their respective cases-in-chief with respect to each of CWA's revenue requirement elements and the OUCC's and CWA's ultimate agreement regarding those elements is described below.

1. Operating Revenues. The most significant difference between the OUCC and CWA was the appropriate amount of pro forma operating revenues at present rates. In its case-in-chief, CWA proposed that its pro forma operating revenues at present rates were $178,993,401. The OUCC recommended the Commission find CWA's pro forma operating revenues at present rates are $185,937,464.

Ms. Prentice sponsored CWA's proposed adjustments to test year operating revenues. Ms. Prentice stated that CWA's proposed pro forma operating revenues reflect a net 180 customer/meter increase from the test-year number. Ms. Prentice stated that CWA's proposed pro forma operating revenues reflect a 1,411,952 hundred cubic feet ("Ccf") decrease in metered discharge volumes and a 314,159,211 gallon reduction in self-reporter discharge volumes, resulting in $3.8 million and $1.2 million reductions in treatment charge revenue respectively from test year to pro forma. In addition, CWA's proposed pro forma operating revenues reflect a 12,584,814 pound reduction in excess strength volumes, which results in a $3.2 million excess strength surcharge revenue decrease from test year to pro forma. During the evidentiary hearing, Ms. Prentice explained that just before CWA filed its case-in-chief, one of its industrial customers notified it that they would be reducing their discharge as well as their excess strength charges by about 30%.

Ms. Prentice further stated that the amount of "other revenues" included in CWA's proposed pro forma revenue requirement reflects a $2.1 million decrease in satellite contract revenue and a $497,585 decrease in "other revenues." Ms. Prentice stated that this was due, in large part, to the fact that several of the satellite customers pay a fixed charge, and two of those customers' last payments were made in 2013. In addition, she stated that two or three charges to that account during the test year were made in error.

Ms. Stull sponsored the OUCC's proposed pro forma at present rate operating revenues of $185,937,464. Ms. Stull proposed the inclusion of two billing cycles excluded from test-year revenues and a resulting pro forma increase of $1,629,407 to Sewer Rate 1 revenues. Ms. Stull also proposed a pro forma increase of $3,304,874 to Sewer Rate 1 revenues to reflect the customer growth experienced by CWA during and subsequent to the test year. Ms. Stull stated that because she had no reliable customer count information, she based her customer growth adjustment on the increase in customer billings for the period October 2012 through May 2013

(adjustment period) as compared to the period October 2011 through May 2012 (test year).

Ms. Stull accepted all of CWA's proposed Satellite Contract revenue adjustments, except its proposed adjustment to fixed revenues. She testified that, based on her review of CWA's Satellite Contract fixed revenues recorded during and subsequent to the test year, pro forma Satellite Contract fixed revenues should be $2,239,620 compared to CWA's proposed pro forma revenues of $443,613, a difference of $1,796,007.

In rebuttal, CWA reduced its proposed pro forma operating revenues at present rates to $173,611,258. Ms. Prentice noted that the OUCC's revenue adjustments result in Phase 1 pro forma at present rates revenue of $185,937,464 (which is a $29.4 million increase from the test year level of revenues), whereas, CWA's Phase 1 pro forma revenue at present rates proposal is a $17.1 million increase from the test year. She stated that, considering the average annual change in revenue over the last four years when adjusted for authorized rate increases is a reduction of more than $595,000, it seems unlikely CWA would experience a $29.4 million increase in revenue in one year (even considering an estimated $17 million increase as a result of the 10.75% rate increase on January 1, 2013).

Ms. Prentice testified there were two primary areas in which CWA and the OUCC differ significantly, customer growth and satellite contract fixed revenue. The OUCC's customer growth adjustment is $10.3 million greater than CWA's rebuttal customer growth adjustment, and the OUCC's satellite contract fixed revenue adjustment is $1.8 million greater than CWA's satellite contract fixed revenue adjustment.

Ms. Prentice stated CWA identified significant customer and/or volume additions and losses that occurred during the test year, as well as known changes to customers and/or volumes that will occur during the twelve months following the end of the test year, all of which are fixed, known and measurable. Ms. Prentice explained there was an overall *reduction* of nearly 25,000 customers in the number of Rate 1 customers during the test year (September 2012 - 200,528 billings, minus October 2011 - 225,260 billings). Ms. Prentice observed that "negative customer growth," when multiplied by the average customer bill, would result in a reduction in revenue to determine pro forma revenue, not a $3.3 million increase in revenue as suggested by Ms. Stull. Ms. Prentice recommended that the Commission reject the OUCC's $3,304,874 revenue adjustment, and that the Commission accept CWA's negative $7,032,040 residential customer growth revenue adjustment, which results in a larger requested revenue requirement increase, as reflected in Petitioner's Exhibit LSP-R4.

In the CWA-OUCC Revenue Agreement, the OUCC and CWA agreed that pro forma revenues at present rates should be $181,477,804. This amount is less than the OUCC's proposed total pro forma present rate operating revenues of $185,937,464 and greater than CWA's proposed pro forma revenues at present rates of $173,611,258.

In her supplemental testimony in support of the Stipulation and Settlement Agreement on Revenue Requirements, Ms. Prentice stated the OUCC and CWA believe the agreed upon amount of operating revenues is within the range of potential determinations that could have been made by the Commission regarding this issue. During the October 23, 2013 evidentiary

hearing, Ms. Prentice further explained that the largest change was to operating revenues, and, basically, that resulted from give-and-take between the parties.

2. Extensions and Replacements ("E&R"). CWA proposed that its revenue requirement for rate-funded E&R should be $46,000,000. Mr. Brehm testified that CWA chose to fund approximately 20.4% of the wastewater system's annual average amount of E&R through revenue. Mr. Brehm noted that CWA's pro forma amount of necessary E&R, based on the average of its 2013-2015 capital spending requirements, is $225,514,333 per year. He said that this amount of extensions and replacements is greater than the current total revenue of the wastewater system, which is $178,993,401 on a pro forma at present rates basis.

Mr. Lindgren described the wastewater system's condition, facilities, and services and explained the general planning and procedures applicable to CWA's capital improvement projects. Mr. Lindgren also described the major capital projects that have been undertaken by CWA since the acquisition.

Mr. Lindgren sponsored Petitioner's Exhibit LCL-1, a Capital Expenditure Summary Chart for the Wastewater System, which shows in summary form the actual capital expenditures and other expenses CWA incurred during the test year and projected for the three subsequent 12-month periods for the major components of the Wastewater System. Petitioner's Exhibit LCL-1 reflects that CWA's anticipated spending for E&R during fiscal year 2013 is $231,052,000, with an average over 2013-2015 of $225,514,333 per year.

Mr. Lindgren explained that the major categories of CWA's annual E&R program are: Consent Decree, Septic Tank Elimination Program ("STEP"), Treatment Plants and supervisory control and data acquisition ("SCADA") Controls, Collection System, Environmental & Shared Services, Fleet and Facilities, Information Technology, Combined Sewer System ("CSS") Capital, and Shared Field Services ("SFS") Capital. Mr. Lindgren stated that items covered by the Consent Decree category generally include costs associated with required capital projects arising from the Consent Decree that CWA is responsible for completing, whereas items covered in the STEP category generally include costs associated with the construction of sanitary sewers to homes that are currently connected to private septic systems.

Mr. Lindgren testified that the major activities in the Treatment Plant and SCADA Controls category involve rehabilitation and replacement of process equipment in the Southport and Belmont Advanced Wastewater Treatment Plants ("AWTPs"). During the test year, total capital expenditures required for this category were approximately $19.5 million with an average of $33.4 million projected over the subsequent 3 years.

Mr. Lindgren testified the majority of the activity in the Collection System category involves activities associated with improving the overall collection network. He stated that during the test year total capital expenditures required for this category were approximately $4.3 million with an average of $22.0 million projected over the subsequent 3 years. He observed that the lower level of test year expenditures compared to projected expenditures is an aberration and is due to integration and transition activity during the test year. Mr. Lindgren stated the increased level of capital expenditures projected is necessary for required collection system replacement

and installation to ensure adequate flow and handling of wastewater and combined sanitary sewer needs for desired system performance levels.

Mr. Lindgren stated that the Environmental and Shared Services category of E&R generally includes master planning, compliance and environmental projects capital expenses. He indicated that during the test year, total capital expenditures required for this category were approximately $3.6 million, with an average of $10.3 million projected over the subsequent 3 years. The lower level of test year expenditures compared to projected expenditures is due to integration and transition activity during the test year, and an increase in design and planning related to projects necessary for compliance purposes.

Mr. Lindgren testified that the Fleet and Facilities category generally includes general office requirements, infrastructure security, fleet replacement and other miscellaneous facility improvements. Mr. Lindgren stated the most significant expenditures during the test year related to fleet replacement and equipment. The items covered in the Information Technology category generally include technical support services in the form of instrumentation and software for system data management, telemetry updates, SCADA instrumentation and data transfer equipment, modeling, GIS software, and program management/work management technology. With respect to the CSS Capital category, Mr. Lindgren stated that it generally includes technical support services in the form of technical studies, planning, and IT projects such as Customer Suite or Oracle EBS.

Mr. Lindgren opined that the projects reflected on Petitioner's Exhibit LCL-1 are necessary for the continued provision of adequate and reliable service by CWA. During the evidentiary hearing, Mr. Lindgren testified that the accuracy of the estimates set forth on Petitioner's Exhibit LCL-1 are better the closer to the test year or fiscal year they are. As the estimates go farther out, there is more variation in the data.

Mr. Jacob testified that the major components of the control measures required by the Consent Decree include the construction of the following projects: (1) a deep underground tunnel system that will extend between, approximately, the Belmont and Southport AWTPs, along Fall Creek, White River, Pogues Run, and Pleasant Run, which will store and then convey CSOs to the Southport AWTP; (2) CSO consolidation sewers along Fall Creek, White River, Pogues Run, and Pleasant Run; (3) a new sewer in the Eagle Creek watershed that will carry flows to the Belmont AWTP; and (4) significant improvements to both the Belmont and Southport AWTPs to almost double their ability to treat incoming flows during wet weather.

Mr. Jacob observed that the most cost intensive project is the construction of the 250-million-gallon tunnel storage system ("Deep Rock Tunnel System") to be built in multiple phases several hundred feet below the ground surface to store CSO flows during wet weather events. Mr. Jacob stated that the first phase of the construction of this tunnel system, known as the Deep Rock Tunnel Connector, is currently underway, and the next phase, to be bid in 2013, is the construction of the Deep Rock Tunnel Connector Pump Station. Mr. Jacob sponsored Petitioner's Exhibit MCJ-8 which shows that expenditures on Consent Decree projects totaled $105,508,629 during the test year and are projected to be approximately $114,000,000 during fiscal year 2013. For 2014, the anticipated expenditures for Consent Decree projects are

estimated to be approximately $124,300,000, and for 2015 the anticipated expenditures for Consent Decree projects are estimated to be approximately $139,500,000.

During the evidentiary hearing, Mr. Jacob stated that if the cost of the Consent Decree projects completed in 2014 and 2015 happens to be lower than the estimates reflected on Petitioner's Exhibit MCJ-8, that would not mean CWA would spend less than the estimated amount. Mr. Jacob explained that in that event, CWA would re-sequence projects to complete certain CSO control measures sooner.

Mr. Jacob also testified that continuation of the STEP program is among the capital needs of CWA. Mr. Jacob testified CWA continues to believe it is appropriate to invest in STEP projects following completion of the projects identified in Section 2.04(d) of the Asset Purchase Agreement. Mr. Jacob outlined a number of benefits that will result from continued investment in STEP projects, and expressed CWA's concern that without the elimination of the pollution caused by failing septic systems, CWA's financial investment in Consent Decree control measures may be insufficient to meet applicable in-stream water quality standards. Mr. Jacob testified that CWA proposes to invest approximately $28 million in 2014 and approximately $20 million in 2015 in order to replace aging, failing septic systems.

Mr. Rees described the steps CWA is taking to comply with the Consent Decree, as well as a review of CWA's capital projects related to STEP and other capital requirements. Mr. Rees testified the OUCC supports the systematic completion of cost effective STEP projects that resolve longstanding health and environmental concerns for citizens in neighborhoods that have failed or failing septic systems. Mr. Rees also testified the OUCC does not oppose CWA's proposed revenue requirement for E&R of $46,000,000 to recover costs in order complete CWA's proposed capital improvements.

The CWA-OUCC Revenue Agreement reflects the OUCC's and CWA's agreement that CWA's revenue requirement for revenue funded E&R should be $46,000,000.

3. <u>Debt Service Revenue Requirement</u>. Mr. Brehm testified that $101,989,261 is the pro forma amount of debt service CWA is proposing for determining the revenue requirement for Phase 1 of the proposed rates. He further testified that $114,141,150 is the pro forma amount of debt service CWA is proposing for determining the revenue requirement for Phase 2 of the proposed rates. Mr. Brehm indicated these amounts of debt service are appropriate for determining the revenue requirement for each step of the proposed rates because they represent the annualized debt service CWA will be incurring while each step of the proposed rates is in place. Mr. Brehm noted that the reason for proposing to increase rates in two steps is due to CWA's debt service obligations increasing materially each year. A significant amount of new debt must be issued each year to finance the large capital spending requirements of the wastewater system.

Mr. Brehm described CWA's debt outstanding as of September 30, 2012. He noted that the total principal amount of the debt outstanding at September 30, 2012 was $1,226,413,000. He noted that the total test year debt service for CWA was $58,761,372.

The annual debt service in fiscal 2014 on CWA's existing debt will be $85,212,038. The total fiscal year 2014 pro forma debt service for CWA with respect to the wastewater system is $101,989,261. The fiscal year 2014 pro forma debt service amount includes debt service on Series 2013A and Series 2014A bonds. The total fiscal year 2015 pro forma debt service for CWA with respect to the wastewater system is $114,141,150, which includes fiscal year 2015 debt service on the Series 2015A bonds.

Mr. Kaufman testified that the OUCC did not oppose CWA's calculations of its annual debt service.

In CWA-OUCC Revenue Agreement, the OUCC and CWA agreed upon Phase 1 and Phase 2 debt service revenue requirements of $101,989,261 and $114,141,150, as described by Mr. Brehm and supported by Mr. Kaufman.

4. Implementation of Phase 2 Rates. Mr. Brehm stated that CWA proposed that Phase 2 of the proposed rate increase go into effect October 1, 2014. According to Mr. Brehm, CEG and CWA have a fiscal year ending September 30, and given that annual rate increases are a fundamental requirement for CWA to have the financial ability to operate, maintain and improve the wastewater system in order to provide adequate and reliable service to customers, it is important for such annual rate increases to become aligned with CWA's fiscal year.

Mr. Kaufman stated that he was concerned that CWA's rates may be in place for several months before CWA issues its 2013, 2014, and 2015 bonds. Mr. Kaufman recommended that any funds collected in rates prior to the respective debt being issued should be used to offset the amount of debt that is issued. Ms. Stull testified that the OUCC did not accept CWA's proposed Phase 2 effective date of October 1, 2014. Ms. Stull was concerned that CWA's proposal would lead to the implementation of two wastewater rate increases in less than a year. She also did not consider it necessary to align the calculation and implementation of a utility's rates with its fiscal year.

In rebuttal, Mr. Brehm stated that there is a substantial risk the rates the Commission approves in this case will not produce the amount of the authorized total revenue requirement because CWA's actual volume of wastewater that it is treating is running below the amount used to determine its pro forma revenue at present rates. Mr. Brehm concluded that Mr. Kaufman's proposal to offset revenue would be unfair if it did not include an adjustment for volume differentials for the volumes embedded in determining the rates. Mr. Brehm also recommended the Commission reject Ms. Stull's proposal to delay implementation of the Phase 2 rates. Mr. Brehm stated that acceptance of Ms. Stull's proposal would require CWA to issue an additional $7 million of debt that is not contemplated in his pro forma amount of debt and debt service.

In the CWA-OUCC Revenue Agreement, the OUCC and CWA acknowledged CWA's plan to issue new debt around January 1, 2014 and around October 1, 2014. The OUCC and CWA accordingly agreed the Commission should authorize CWA to increase its rates and charges on October 1, 2014, to generate additional revenues in the amount sufficient to fund the Phase 2 Debt Service. CWA agreed that if the Phase 2 Debt Issuance is not completed prior to

November 1, 2014, CWA will use incremental revenues as a result of the Phase 2 Increase authorized pursuant to this Agreement and realized between October 1, 2014, and the date the Phase 2 Debt Issuance is closed as an offset to the funds borrowed in connection with the Phase 2 Debt Issuance.

The OUCC and CWA agreed the foregoing offset to the funds borrowed in connection with the Phase 2 Debt Issuance will not be required if CWA shows it had insufficient treatment volumes to allow it to bill the revenues approved for the Phase 1 increase and Phase 2 increase. Ms. Prentice testified that the Settling Parties will cooperate in good faith to finalize the methodology that will be used to make the comparison between actual billed revenues and pro forma revenues authorized in the Commission's final order in this proceeding for purposes of implementing this paragraph.

5. Debt Service True-Up. Mr. Kilpatrick testified that CWA proposed to true-up its pro forma debt service to actual cost after the closing on the debt financings in both phases. Mr. Kilpatrick stated CWA will make a true-up filing with the Commission within 30 days of closing on the Phase 1 and Phase 2 Debt Issuances to reflect the actual principal amount of the bonds, the interest rate of the debt, the financing term, actual average annual debt service requirements, and the actual impact on CWA's metered rates. He added that if the actual impact on CWA's metered rates is materially different than the increases approved by the Commission in this Cause, CWA will file amended schedules of rates and charges within 15 days of filing the true-up report.

Mr. Kaufman agreed that because the precise interest rate and annual debt service will not be known until the debt is issued, CWA's rates should be trued-up to reflect the actual interest rates. Mr. Kaufman recommended that CWA file a report with the Commission and serve a copy on the OUCC within 30 days of closing on any long-term debt issuance, and suggested that CWA's report should include a revised rate schedule and tariff. According to Mr. Kaufman, if the change in CWA's rates is immaterial, no change to rates is necessary, but to help avoid unnecessary filings, CWA should have the right to decide if an increase in rates is immaterial and the OUCC should have the right to decide if a decrease in rates is immaterial.

In rebuttal, Mr. Kilpatrick agreed that a true-up report is necessary to advise the Commission and the parties of the actual cost of debt, which will not be known until the date of issuance. Mr. Kilpatrick, however, disagreed that CWA and the OUCC should determine the materiality of increases or decreases and stated that the Commission should determine the materiality of the change in rates.

In the Stipulation and Settlement Agreement on Revenue Requirements, the OUCC and CWA agreed CWA will file a true-up report and revised rate schedules within 30 days of the Phase 1 Debt Issuance and Phase 2 Debt Issuance that provides details of each issuance. The OUCC and CWA further agreed that for purposes of whether revised rates need not be implemented, the OUCC will determine whether a decrease is immaterial and CWA will determine whether an increase is immaterial. Neither party may seek to overturn the other party's determination that a decrease or increase is material. The Commission in its sole discretion may

order CWA to file revised rates notwithstanding either Settling Party's determination that a prospective change is immaterial.

6. Operations & Maintenance Expenses and Taxes. In their respective cases-in-chief, the OUCC and CWA proposed disparate revenue requirements for pro forma O&M expense. In its case-in-chief, CWA proposed that its pro forma revenue requirement for O&M expense is $65,729,815. The OUCC recommended that the Commission find CWA's pro forma revenue requirement for O&M expense is $61,824,057.

The OUCC accepted CWA's proposed adjustments for employee benefits, purchased power, natural gas, customer bill expenses, building rent, IT network support, CSS redistribution, payroll taxes, and property taxes. CWA presented evidence supporting each of those adjustments. Mr. Vincent sponsored the actuarial study used to determine the funding amount for the CEG Retirement Plan and specifically for CWA. Ms. Karner sponsored and described CWA's adjustments to purchased power expense, natural gas, building rent, IT network support, CSS redistribution costs, and property taxes.

The OUCC proposed specific adjustments to CWA's O&M revenue requirement in its case-in-chief, which resulted in the following differences in proposed adjustments:

Salaries and Wages	$ -961,873
Chemical Expenses	-88,384
United Water Fees	-281,927
Bad Debt Expense	-1,823,889
Rate Case Expense	-28,000
Outside Legal Fees	-197,507
Other Misc. Expense	28,308
Total OUCC Difference	**$ -3,375,332**

In rebuttal, CWA agreed to certain adjustments proposed by the OUCC and modified its pro forma revenue requirement for O&M expense to $64,599,525. Specifically, CWA accepted the OUCC's adjustment to rate case expense to the extent the OUCC was willing to limit its billed charges to the amount estimated in the OUCC's case-in-chief. CWA also agreed with the OUCC that the test-year amount for United Water fees should include an additional $966,567, which is $281,927 less than Petitioner's proposed adjustment.

The most significant areas of disagreement between the parties related to incentive costs and bad debt expense. With respect to incentive costs, Mr. Riceman recommended that CWA's proposed pro forma Executive Incentive Plan ("EIP") expense of $503,929 be reduced by $453,536. As part of his analysis, Mr. Riceman explained that the EIP looks at performance in four key components. He testified that, with the exception of the Supplier Diversity Component, all other components of the EIP are based on Citizens Gas or Citizens Thermal Steam indices, which are not tied to the performance and management of CWA's wastewater system. He therefore suggested that costs associated with successful performance under these indices should not be included as a revenue requirement.

In rebuttal, Ms. Richcreek testified that CWA's pro forma EIP expenses should be included in CWA's revenue requirements because they are a portion of total market-based pay of executives that provide services to the wastewater utility. Ms. Richcreek further explained that the EIP measures, including competitive rates, customer satisfaction, and operational measures represent a holistic approach to the long-term health of Citizens Energy Group, and are applicable to the wastewater utility.

With respect to bad debt expense, Mr. Patrick explained that the OUCC recommended a total bad debt expense adjustment of $1,695,889 ($1,255,618 for the test year, $323,720 for Phase 1, and $116,551 for Phase 2), whereas CWA requested a total bad debt expense adjustment of $3,519,778 ($2,549,999 for the test year, $758,367 for Phase 1, and $211,412 for Phase 2). Mr. Patrick stated that he looked to January, February, and March 2012 for guidance to determine a write-off percentage, and that CWA's average bad debt percentage is 0.95%. He testified that although CWA had control of accounts receivable in the months preceding January 2012, those months would not necessarily reflect the level of success CWA could expect with completed implementation of its own policies, procedures and practices.

In rebuttal, Ms. Prentice explained that there have been a myriad of events between CWA's acquisition of the wastewater utility and August 2013 that had rendered the collection/write-off process unstable and unpredictable. She indicated, however, that the collection/write-off process has stabilized, and that CWA expects write-off activity eventually to subside somewhat. Ms. Prentice acknowledged that CWA's originally proposed net write-off ratio may be somewhat high. Ms. Prentice recommended the Commission authorize a net write-off ratio between the two proposals of 1.33% (*i.e.*, the average of 1.71% and 0.95%).

In the CWA-OUCC Revenue Agreement, the OUCC and CWA agreed CWA's pro forma O&M expense should be $62,358,159 in Phase 1 and $62,521,958 in Phase 2. This amount is more than the OUCC's proposed total pro forma O&M expense of $61,824,057, but less than CWA's proposed pro forma O&M expense of $65,254,588. In her testimony in support of the Stipulation and Settlement Agreement on Revenue Requirements, Ms. Prentice stated that the OUCC and CWA believed the agreed-upon amount was within the range of potential determinations that could have been made by the Commission regarding this issue.

7. Depreciation. Ms. Karner sponsored CWA's pro forma depreciation expense of $55,271,816. Ms. Stull did not make any adjustments to test-year depreciation expense and stated that as is consistent for not-for-profit, wastewater utilities, CWA has requested a revenue requirement for E&R rather than depreciation expense. Ms. Stull noted that CWA made several adjustments to test-year depreciation expense to increase it by $3,471,819, and then removed the total amount of depreciation expense from its proposed revenue requirement.

Ms. Stull testified that she disagreed with CWA's calculation of depreciation expense in part and contended that CWA's proposed test-year depreciation expense used depreciation rates other than the composite rate approved by the Commission in Cause No. 43936. Ms. Stull stated that depreciation expense for all utility assets used to service customers of the wastewater utility

should either be calculated based on rates determined in a comprehensive depreciation study or should use the Commission's composite rate. Ms. Stull explained that depreciation for Customer Shared Services ("CSS") and SFS allocations were based on various group depreciation rates developed as part of an overall CEG depreciation study that was presented in Cause No. 43975. She said that the report presents the results of the depreciation study prepared for gas utility plant within CEG's Gas Operations and CSS Division, Steam and Chilled Water assets within the Thermal Division, and the Westfield Gas Utility property. Ms. Stull said that picking and choosing depreciation rates from different depreciation studies is problematic and can misstate depreciation expense. Ms. Stull recommended that until CWA completes a comprehensive depreciation study, depreciation expense should be based on the Commission's composite depreciation rate and applied to all assets used to provide wastewater utility service. Ms. Stull indicated that the Commission need not make any specific finding with respect to depreciation expense because there is no ratemaking impact associated with depreciation expense.

In rebuttal, Ms. Karner testified that the depreciation rates used by CWA were approved by the Commission in Cause No. 43975. Ms. Karner stated that SFS and CSS assets are not assets of CWA and cannot and should not depreciate at CWA's composite rate. Ms. Karner further stated it would be impossible to depreciate, for financial or regulatory purposes, the same SFS and CSS assets at different rates depending on the business unit deriving the benefit of their use.

C. 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 of Ind., Inc. v. PSI Energy, Inc.*, 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 of Ind., Inc. v. Public Service Co. of Ind., Inc.*, 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 ch. 8-1-2, and that such agreement serves the public interest.

In this case, CWA offered evidence supporting its proposed $49,252,862 Phase 1 increase in pro forma operating revenues, while the OUCC presented evidence supporting its recommendation that CWA's annual operating revenues should be increased by $34,075,836 in Phase 1. Thus, the CWA-OUCC Revenue Agreement provides for rate relief, which, while being less than that originally proposed by CWA, CWA has deemed reasonable and sufficient. Based

on our review of the evidence and consideration of the provisions in the CWA-OUCC Revenue Agreement, we find the recommended amounts of the Phase 1 and Phase 2 increases to operating revenues from rates and charges set forth in the CWA-OUCC Revenue Agreement are within the range of the possible outcomes. In addition, we find that the provision of the CWA-OUCC Revenue Agreement to allow $46 million in E&R is reasonable. We also find that the Connection Fee Offset of $5,213,545 and Interest Income deduction of $168,275 from the parties' total revenue requirement are reasonable. A couple of issues that contribute to Petitioner's revenue requirement merit specific discussion.

1. Executive Compensation. In our March 19, 2014 Order in Cause No. 44306 ("44306 Order"), we made specific findings and conclusions regarding the amount of executive compensation that Citizens Water should be allowed to recover from its ratepayers. Specifically, we concluded that the purpose of the executive incentive program ("EIP") was not to incent customer service, but to provide for meeting executive level compensation targets that we find inappropriate in municipal ratemaking. We also concluded that such compensation appears to be inconsistent with the underlying mission statement of a not-for-profit charitable trust. Therefore, we made adjustments to Citizens Water's labor expense for short-term incentive pay ("STIP") and EIP.

We noted in the 44306 Order that "the rationale for our decision in this Cause is applicable not only to Citizens Water, but CEG's municipal gas, sewer, and thermal utilities as well." 44306 Order, 2014 Ind. PUC LEXIS 65, at *128. We incorporate the findings and conclusions regarding executive compensation in the 44306 Order into this Order. In this case, CWA and the OUCC negotiated and agreed to a total revenue requirement amount. But because neither CWA nor the OUCC provided specific details of which expenses were modified in reaching the agreed revenue requirement, we have no way of ascertaining whether or not the agreed revenue requirement included a reduction in labor expense for the executive compensation. Therefore, applying the rationale of the 44306 Order, we have adjusted CWA's labor expense as discussed below.

a. EIP. In the 44306 Order, we found that many of the performance goals of the EIP appear to duplicate the performance goals of the STIP. In addition, it does not appear that the EIP metrics, to the extent they differ from the STIP metrics, improve service to ratepayers. Instead, we agree with the 44306 Order that the EIP, as an additional mechanism to increase executive compensation, results in excessive compensation being allocated to municipal ratepayers. Therefore, we remove Petitioner's test-year EIP expense of $440,125 from the agreed revenue requirement.

b. STIP. In the 44306 Order, we determined that STIP represents an appropriate incentive-based compensation plan. But in reviewing the percentage of base salary awarded as STIP during the pro forma period, we noted the level of STIP incentive pay at the executive level exceeds the company average by a wide margin. CEG executives received an average of 46.99% of base salary in STIP, while non-executives only earned an average of 8.96% of base salary in STIP. We found that aspect excessive and inappropriate to be allocated under municipal rates. Accordingly, executive level STIP compensation in this matter should be

based on the same percentage as non-executive employees or 8.96%. Using this percentage, we calculate a downward adjustment in the amount of $707,513.

In calculating the STIP adjustment, we used Petitioner's Determination of Total Payroll Adjustment and corresponding supporting workpapers, in which CWA's Corporate Shared Services allocation percentage for all employees is 19.83%. We note that the VP Water Operations is a Citizens Water employee whose base pay is allocated at 50%, because his time is split evenly between sewer and water operations. In addition, the VP Engineering and Shared Field Services is a Shared Field Service employee whose base pay is allocated at 11.51%. Finally, the VP Major Capital Projects' base pay is allocated 100% to CWA.[2]

	Total Base Pay	Base Pay allocated to CWA	Petitioner's Executive STIP%	Pro forma CWA Executive STIP	IURC approved Executive STIP%	IURC approved CWA Executive STIP
President & CEO	$ 614,910	$ 121,937	75%	$ 91,452	8.96%	$ 10,920
Senior VP, Chief Administrative Officer	$ 296,640	$ 58,824	50%	$ 29,412	8.96%	$ 5,268
Senior VP and CFO	$ 306,940	$ 60,866	50%	$ 30,433	8.96%	$ 5,451
Senior VP, Chief Operations Officer	$ 355,350	$ 70,466	50%	$ 35,233	8.96%	$ 6,310
Senior VP, Customer Relationships and Corporate Affairs	$ 257,500	$ 51,062	50%	$ 25,531	8.96%	$ 4,573
Senior VP, Engineering & Sustainability	$ 270,890	$ 53,717	50%	$ 26,859	8.96%	$ 4,810
VP Corporate Communications and Chief Diversity Officer	$ 203,940	$ 40,441	35%	$ 14,154	8.96%	$ 3,622
VP Regulatory Affairs	$ 189,520	$ 37,582	35%	$ 13,154	8.96%	$ 3,365
VP Strategy and Corporate Development	$ 196,730	$ 39,012	35%	$ 13,654	8.96%	$ 3,494
VP Water Operations	$ 269,860	$ 134,930	40%	$ 53,972	8.96%	$ 12,083
VP Information Technology	$ 224,540	$ 44,526	35%	$ 15,584	8.96%	$ 3,987
VP and General Counsel	$ 267,800	$ 53,105	35%	$ 18,587	8.96%	$ 4,756
VP & Controller	$ 180,250	$ 35,744	35%	$ 12,510	8.96%	$ 3,201
VP Engineering and Shared Field Services	$ 180,250	$ 20,747	40%	$ 8,299	8.96%	$ 1,858
VP Major Capital Projects	$ 180,250	$ 180,250	40%	$ 72,100	8.96%	$ 16,142
VP of Human Resources	$ 180,250	$ 35,744	35%	$ 12,510	8.96%	$ 3,201
Total	$ 4,175,620	$ 1,038,952		$ 473,444		$ 93,039

In calculating the STIP adjustment, we provide non-executive STIP allocated to CWA totaling $797,396, as reflected below. The non-executive STIP expense was calculated by subtracting CWA's Executive STIP of $473,444 (which incorporates the aforementioned allocation corrections) from Petitioner's total pro forma STIP expense of $1,270,840. We then added CWA Executive STIP of $93,039, calculated using the 8.96% percentage. This yields total CWA STIP expense of $890,434. Subtracting total test year CWA STIP expense of $1,597,947 yields a reduction of $707,513.

[2] In Cause No. 44306, Petitioner allocated 26.83% of the VP Major Capital Projects' salary to Citizens Water and allocated 100% in this Cause. No party raised this as an issue and no testimony was filed by CWA to explain which allocation was correct. Thus, no adjustment has been made. But in future proceedings, this allocation issue should be addressed.

IURC CWA STIP Adjustment:

Petitioner's Pro forma CWA STIP for all employees	$	1,270,840
Less: CWA Executive STIP		473,444
Non-Executive STIP expense		797,396
Add: CWA Executive STIP expense at 8.96%		93,039
IURC CWA STIP expense for all employees		890,434
Less: Test Year CWA STIP for all employees		1,597,947
IURC CWA STIP Adjustment	$	(707,513)

Combining the EIP and STIP adjustments, we find that Petitioner's test-year labor expense adjustment is a decrease of $1,147,638.

c. Payroll Taxes. Based on our findings regarding labor expense, we make downward payroll tax adjustments of $6,382 and $10,259 to reflect Medicare tax rates, related to our findings on EIP and STIP, respectively. Combining these payroll tax adjustments results in a total test-year adjustment of $-16,641.

d. CSS Redistribution. In the July 13, 2011 Order in Cause No. 43936, the Commission approved the Settlement Agreement in which CEG proposed to allocate a maximum of 10% of CSS costs to CWA, even though CWA's actual CSS costs may exceed this percentage. Any excess CSS costs that would have normally been allocated to CWA would be redistributed to all other CEG subsidiaries. This agreed-upon methodology allows all customer stakeholders to benefit from the acquisition of the water and wastewater assets of the City. As part of that Settlement Agreement, CEG would review the allocation of CSS costs at least once during every three-year period and submit the report to the Commission, the OUCC and other Settling Parties regarding such reviews. In this case, CWA's actual pro forma CSS allocation percentage is 19.83%. Per the Settlement Agreement in Cause No. 43936, CWA's CSS allocation is capped at 10%, thus requiring a 9.83% redistribution of CSS costs to all other CEG subsidiaries. Based on our reductions to labor expense and payroll taxes, we made an adjustment to CSS redistribution expenses of $312,836 that reduces the amount of CSS costs redistributed to other CEG subsidiaries.

2. STEP Program. Mr. Jacob described the following benefits of continuing the STEP program beyond the requirements of the Consent Decree and the Wastewater APA:

1. It will likely result in a higher benefit to improving water quality than additional CSO control measures and be more cost-effective than completing additional CSO control measures.
2. It mitigates the potential of the Marion County Health Department having to condemn properties, which would create an economic development loss for the community.
3. It improves public health and quality of life in central Indiana; and

4. If the program were discontinued, IDEM could require the Authority to implement additional controls on the Belmont and Southport Advanced Wastewater Treatment Plant's ("AWTP") effluent discharges under the NPDES permit.

The OUCC supports the continuation of the STEP program. Conversion of private on-site wastewater disposal systems (septic systems) is a public health and surface water quality issue. Although the STEP program replaces septic systems at individual locations, the cumulative effects of the program provide benefits for CWA's customers and for the residents of the City in general. As a result, we approve the continued funding of the STEP program for 2014 and 2015.

We will continue to monitor and study the broader impact and cost-effectiveness of the STEP Program. Therefore, within 60 days after the effective date of this Order, CWA shall file under this Cause a report with the Commission that includes a detailed, prioritized list of the planned STEP Projects. In addition, beginning 13 months after the effective date of this Order, CWA shall file under this Cause an annual report that includes any updates or changes to the list of STEP projects previously filed with the Commission a list of all STEP projects completed, including costs, for the twelve-month period ending one month prior to the date of the report. CWA shall file this annual report so long as the STEP program continues or until directed otherwise by the Commission's Water/Sewer Division Staff.

In addition, we encourage CWA to work with the Marion County Health Department to encourage residents or businesses seeking permission to install a new septic system to consider connection to the wastewater system instead.

3. Conclusions on Revenue Requirement. CWA and the OUCC agreed on several of the major components that are used to determine the revenue requirement, for example, the amount of rate funded E&R ($46,000,000) and debt service ($101,989,261 in Phase 1 and $114,141,150 in Phase 2). These are the most significant factors contributing to CWA's need for rate relief. In Cause No. 43936, we approved for recovery in rates CWA's assumption of the existing outstanding debt of the Sanitary District or the City related to the wastewater system, issuance of new debt related to CWA's acquisition of the wastewater system and CWA's semi-annual payment to the City associated with the Sanitary District's general obligation debt.

The wastewater system has substantial capital needs. Petitioner's Exhibit LCL-1 reflects CWA's position that the capital needs of the system average approximately $225,514,333. Of that amount, CWA must spend approximately $131,900,000 annually in order to comply with the Federal Consent Decree. In Cause No. 43936, we approved as an Environmental Compliance Plan ("ECP") under Ind. Code ch. 8-1-28, the Consent Decree, the Long-Term Control Plan, and the amendments to the Consent Decree. We found that the ECP represents a reasonable and least-cost strategy consistent with providing reliable, efficient, and economical service. We noted that the terms of the Consent Decree must be complied with or CWA will be in violation of the Clean Water Act and subject to stipulated penalties.

In this proceeding, Mr. Jacob testified that to date all aspects of the control measures set forth in the Long-Term Control Plan ("LTCP") have either been met or are on schedule to be

met. Mr. Jacob further stated that CWA's estimates of the costs of Consent Decree projects to be undertaken in fiscal years 2013 through 2015 are reasonable and representative of the costs that will be actually incurred. Both Mr. Lindgren and Mr. Jacob testified that to the extent CWA is able to complete necessary projects at a cost below the estimates included in Petitioner's Exhibit LCL-1, CWA will re-sequence projects in order to complete other necessary capital improvements sooner.

Based on the evidence presented, we find the provisions of the CWA-OUCC Revenue Agreement regarding the proposed increases in CWA's operating revenues in Phase 1 and Phase 2 as set forth on page 6 of this Order are reasonable and just and are supported by the evidence presented. Therefore, we approve the terms of the CWA-OUCC Revenue Agreement as modified above. The agreed revenue requirements, including Commission adjustments, for Phases 1 and 2 are summarized in the tables below.

Phase 1

	Per Settlement	Changes	IURC Adj Settlement
Operating Expenses	$ 61,896,600	$ -	$ 61,896,600
Change in EIP	-	(440,125)	(440,125)
Change in STIP	-	(707,513)	(707,513)
Change in CSS	-	312,836	312,836
Sub Total Operating Expense	61,896,600	(834,802)	61,061,798
Taxes other Than Income	15,627,382	(16,641)	15,610,741
Extensions and Repairs	46,000,000	-	46,000,000
Connection Fee Offset	(5,213,545)	-	(5,213,545)
Debt Service- Current	101,989,261	-	101,989,261
Total Revenue Requirements	220,299,698	(851,443)	219,448,255
Less: Interest Income	157,631	-	157,631
Other Income	10,644	-	10,644
Net Revenue Requirements	220,131,423	(851,443)	219,279,980
Less: Revenues at current rates subject to increase	174,440,952	-	174,440,952
Other revenues at current rates	7,036,852	-	7,036,852
Net Revenue Increase Required excluding taxes	38,653,619	(851,443)	37,802,176
Divide by Revenue Conversion Factor	0.9882	0.9867	0.9882
Net Revenue Increase/Decrease Recommended	$ 39,115,178	$ (862,920)	$ 38,252,258
Recommended Percentage Increase in Total Revenues	21.55%		21.08%

Phase 2			
	Per Settlement	Changes	IURC Adj Settlement
Operating Expenses	$ 62,358,159	$ -	$ 62,358,159
Change in EIP	-	(440,125)	(440,125)
Change in STIP	-	(707,513)	(707,513)
Change in CSS	-	312,836	312,836
Sub Total Operating Expense	-	(834,802)	61,523,357
Taxes other Than Income	15,627,382	(16,641)	15,610,741
Extensions and Repairs	46,000,000	-	46,000,000
Connection Fee Offset	(5,213,545)	-	(5,213,545)
Debt Service- Current	114,141,150	-	114,141,150
Total Revenue Requirements	232,913,146	(851,443)	232,061,703
Less: Interest Income	168,275	-	168,275
Other Income	-	-	-
Net Revenue Requirements	232,744,871	(851,443)	231,893,428
Less: Revenues at current rates subject to increase	213,556,130	-	213,556,130
Other revenues at current rates	7,036,852	-	7,036,852
Net Revenue Increase Required excluding taxes	12,151,889	(851,443)	11,300,446
Divide by Revenue Conversion Factor	0.9867	0.9867	0.9867
Net Revenue Increase/Decrease Recommended	$ 12,315,688	$ (862,920)	$ 11,452,768
Recommended Percentage Increase in Total Revenues	5.58%		5.19%

6. Industrial Group's Proposed Adjustments to E&R and Debt Service. The Industrial Group was not a party to the CWA-OUCC Revenue Agreement. Therefore, we must address the Industrial Group's two proposed reductions to CWA's revenue requirement: (1) that CWA's pro forma debt service be reduced by 6%; and (2) that the amount of E&R funded through rates be reduced by 20%.

A. Industrial Group's Evidence. Mr. Smith asserted that CWA's proposed rates attempt to recover costs that are not associated with providing wastewater service. He noted that CWA and the City have developed and agreed to a plan of cooperation but stated that the plan fails to address the significant capital costs that CWA will incur to maintain, repair, and replace the assets that comprise the combined sewer system and in CWA's efforts to implement the LTCP. Mr. Smith stated that recovery of storm water costs through wastewater rates results in an unfair and inequitable recovery of storm water costs and that the Commission recognized this issue when it directed CWA and the City to develop a plan to ensure that one utility was not subsidizing the other. Mr. Smith testified that CWA has a number of options with respect to recovering its storm water related capital costs, including the option to develop a storm water fee that recovers storm water costs from customers based on characteristics that are indicative of their contribution to storm water runoff volumes, such as impervious surface area or parcel size. He noted that this approach would not allow for the recovery of storm water costs from properties that have no sewer connections and would also require CWA to gather property data for each of its customers such that a storm water fee could be properly assessed.

Mr. Smith asserted that a determination of CWA's capital costs attributable to storm water would require detailed information related to the design and construction of the combined sewer system and each of the projects that make up the LTCP such that engineers can determine what portion of the costs related to each asset is attributable to wastewater and what is attributable to storm water. Mr. Smith presented an adjusted cost of service that reflected a 6% reduction of the amount of debt service included in CWA's pro forma revenue requirement and a 20% reduction in the amount of revenue funded E&R included in CWA's pro forma revenue requirement. Mr. Smith asserted his adjusted cost of service represents one way that the Commission can address CWA's failure to separate the storm water costs from the wastewater costs. He said his method could also provide a temporary basis for setting the wastewater rates, reduce some of CWA's more discretionary expenditures, and eliminate the arbitrary subsidy of the Non-Industrial class by the Industrial class proposed by CWA. Mr. Smith said that the 6% reduction in the debt service revenue requirement is a reasonable step to reduce CWA's collection of storm water costs through wastewater rates.

B. CWA's Rebuttal Evidence. Mr. Lykins stated that Mr. Smith's characterization of the language from the 43936 Order is wrong. Mr. Lykins said that the 43936 Order was never intended to lead to an outcome where the City would continue to bear a portion of the costs incurred to maintain the Combined Sewer System assets or implement the LTCP. Mr. Lykins said that Mr. Smith's suggestion that CWA and the City have some obligation to reach an agreement that would result in a transfer of responsibility from CWA back to the City for the cost of the Combined Sewer System or the Consent Decree is wholly inconsistent with the Wastewater Asset Purchase Agreement and the 43936 Order.

Mr. Lykins further testified that Mr. Smith's proposed debt service reduction is a violation of the settlement agreement entered into by the Industrial Group in Cause No. 43936. He explained that the vast majority of the debt service Mr. Smith proposes be eliminated from CWA's revenue requirement is debt service the Industrial Group stipulated would be recoverable through rates and the Commission has already authorized CWA to recover through its rates and charges. Mr. Lykins summarized his response to the Industrial Group's proposed revenue requirement reductions as follows:

> The disallowances proposed by the Industrial Group would jeopardize CWA's ability to comply with the Consent Decree, provide quality and reliable service and maintain the financial integrity of the wastewater utility. The decisions CWA made to acquire the wastewater system in the manner contemplated by the Wastewater Asset Purchase Agreement, including issuance of the debt necessary to close the acquisitions, as well as additional debt that has been issued to comply with the Consent Decree and maintain the Combined Sewer System, all were made in good faith reliance on the assurances provided in the settlement agreement and final Order in Cause No. 43936 that the costs the Industrial Group now urges the Commission to disallow would be recoverable through CWA's rates and charges.

Mr. Fetter also provided rebuttal testimony on behalf of CWA in response to the Industrial Group's recommendations. Mr. Fetter discussed his views regarding the positive benefits of contested cases being resolved through settlements and the importance of settlement agreements being respected and adhered to in subsequent proceedings. He testified about his views on the potential reaction of rating agencies if the Commission were to back away on the settlement terms it approved in Cause No. 43936. Mr. Fetter stated that such action by the Commission would be closely scrutinized by investors, financial analysts, and bond raters, and if no credible path to reversal could be found, it likely would alter in a negative direction their assessment of the IURC's current reputation for constructive regulatory policies and processes.

C. Commission Discussion and Findings. The Industrial Group asks us to require that CWA adhere to the requirements set forth in the 43936 Order and identify all costs associated with storm water management such that those costs can be recovered in a manner other than through wastewater rates. Mr. Smith argues that until CWA completes the necessary study, reducing the requested debt service requirement by 6% is a reasonable step to reduce CWA's collection of storm water costs through wastewater rates. But during the evidentiary hearing, the Industrial Group agreed to the following stipulation:

> The Industrial Group will stipulate that CWA Authority, Inc. and the City of Indianapolis have satisfied the Commission's directive to agree to an appropriate plan of cooperation between the CWA Authority-owned wastewater utility and the City-owned storm water utility that, as best as possible, ensures the wastewater utility's customers are not subsidizing the City's storm water utility's customers and that the City's storm water utility customers are not subsidizing the wastewater utility's customers.

Mr. Tracy provided testimony about the steps taken by CWA and the City to comply with the 43936 Order. They have taken steps to inventory and verify the delineation of the storm water system assets and combined sewer system assets, to allocate fees paid to United Water to maintain both systems, and to enter into the Cooperation Agreement, all of which significantly mitigate the possibility of CWA's customers subsidizing the City's storm water system.

In Cause No 43936, the Industrial Group, through the settlement agreement in that Cause, recommended that we approve the Consent Decree and LTCP as an Environmental Compliance Plan under Ind. Code § 8-1-28-7. We granted that approval and found the Consent Decree and LTCP constitute a reasonable and least cost strategy consistent with providing reliable, efficient, and economical service as set forth in Ind. Code § 8-1-28-7(1)(B). We further approved the estimated cost and schedule for developing and implementing the Consent Decree and LTCP.

During the evidentiary hearing in this Cause, Mr. Smith testified that, to the extent his recommendation to reduce pro forma debt service by 6% resulted in CWA's inability to recover any of the items that were approved for recovery in the 43936 Order, his recommendation would be inconsistent with that Order. He also testified that, to the extent the combination of his debt service recommendation and his E&R recommendation would result in CWA's inability to recover the money necessary to fund the LTCP, his recommendations would be inconsistent with the 43936 Order.

Mr. Smith attempted to dismiss concerns that his recommendations to reduce debt service and revenue funded E&R might result in CWA's inability to complete necessary capital projects by stating CWA could simply choose to delay certain capital projects or not complete them at all. But during the evidentiary hearing, Mr. Smith admitted that he had not completed any analysis of CWA's capital plan to support his contention that his recommendations would not adversely affect CWA's ability to complete needed capital projects, and that his testimony was his opinion based on his experience with other utilities. Specifically, the following exchange occurred:

> JUDGE EARL: Can I nail this down? Was your statement that the 20% would not influence the utility's ability to—was it meet the terms of the Consent Decree; is that what we're—is it based on your opinion—
>
> WITNESS SMITH: That is my opinion.
>
> JUDGE EARL: —based on your experience?
>
> WITNESS SMITH: On my experience—an opinion based on my experience.
>
> JUDGE EARL: Not on any analytical study that you conducted?
>
> WITNESS SMITH: Not on any analytical study that I conducted.

Based on Mr. Smith's testimony at the hearing, we find that he has not provided sufficient evidence to support his proposed reductions to debt service and E&R.

Further, in the 43936 Order, the Commission recognized the importance of CWA's compliance with the Consent Decree, noting that the terms of the Consent Decree must be complied with or CWA will be in violation of the Clean Water Act and will be subject to stipulated penalties. Accordingly, the Commission approved the estimated cost and schedule for developing and implementing the Consent Decree and LTCP. We believe the Industrial Group's proposed reductions to debt service and revenue funded E&R would jeopardize CWA's ability comply with the Consent Decree and otherwise maintain the wastewater system in a condition to render adequate and efficient service. Therefore, we reject the Industrial Group's recommendation to reduce CWA's pro forma debt service by 6% and revenue funded E&R by 20%.

7. Cost of Service.

A. CWA's Evidence. Mr. Borchers sponsored Petitioner's Exhibit MCB-2, which contains his cost of service study. Mr. Borchers noted that Black & Veatch followed the cost of service allocation and rate design procedures recommended by the Water Environment Federation ("WEF") in its Manual of Practice Number 27 Financing and Charges for Wastewater Systems ("WEF MOP 27"). Mr. Borchers explained that Schedule 1 of Exhibit MCB-2 summarizes the test-year revenue requirements to be recovered from wastewater rates and charges.

Mr. Borchers testified that cost components related to wastewater volume, capacity or peak rates of flow, wastewater strengths consisting of biochemical oxygen demand ("BOD"), total suspended solids ("TSS"), Ammonia ("NH_3"), and the total number of customers and bills are the functional cost components which are recognized in the cost of service study. His testimony described the manner in which Net Plant in Service was allocated to functional cost components, the basis for allocating strength related costs to the BOD, TSS, and NH_3 components, as well as the allocation of operation and maintenance expenses.

Mr. Borchers considered customer classification factors during the cost of service study. He noted that CWA currently uses two principal retail customer classes, Non-Industrial and Industrial. Mr. Borchers proposed that CWA continue with its current rate and customer classifications for this cost of service study. He noted the current classifications are generally typical of the wastewater industry, and that more detailed information would need to be developed to further differentiate between classes based on service requirements. With respect to customers known to have food service operations and haulers that discharge grease at CWA's Belmont treatment plant, Mr. Borchers proposed that the rates and charges for these customers remain at their current levels and be addressed in a future cost of service study once CWA has developed its Fats, Oils, and Grease monitoring plan and determined whether to continue with the acceptance of grease at its Belmont treatment plant.

Schedule 6 of Exhibit MCB-2 presents the units of service related to the wastewater system by customer class. Mr. Borchers explained how infiltration and inflow is distributed to the customer classes, as well as how contributed volumes for each class are determined. A calculation of Satellite customers' capital cost of service is presented on Schedule 7 of Exhibit MCB-2. Mr. Borchers described why Satellite customers are included in the cost of service study and how he determined the cost of service for them.

Describing the next step in his cost of service study, Mr. Borchers testified that, using retail units of service, the remaining net capital revenue requirements are recovered from retail customers as seen on Schedule 8 of Exhibit MCB-2. Schedule 9 shows the allocation of net O&M revenue requirements to customer classes; Schedule 10 provides for the re-allocation of the Satellite difference between cost of service and revenue under existing rates to each of the retail customer classes; and Schedule 11 presents a comparison of the cost of service results by class, versus each class' revenue under existing rates for Phase 1 of this rate case.

Mr. Borchers next addressed the Phase 1 rate design, noting that his approach to designing a schedule of rates and charges is to attempt to achieve cost of service recovery from each customer class and in total, while at the same time balancing the issues of affordability and rate shock. Black & Veatch looked at several options of cost recovery by class and ultimately determined that a gradual approach to achieving cost of service rates by class was warranted to mitigate the rate shock related to moving immediately to cost of service rates. He indicated this would include gradually moving toward cost of service based rates over the next 3 to 5 rate proceedings.

According to Mr. Borchers, Black & Veatch evaluated cost of service rates for normal strength wastewater for both the Non-Industrial and Industrial classes (using the Phase 1 cost of

service results). The cost of service rate structure consisted of a monthly service charge, plus a rate per 1,000 gallons. The resulting typical bill comparison showed that by moving to full cost of service rates, a typical residential (Non-Industrial) customer that uses 5,000 gallons per month would see a monthly increase of approximately 82%. Mr. Borchers also noted that a schedule of proposed rates and charges was developed that took into account the need for total system cost recovery, as well as the need for assessing and addressing the impact on affordability, and rate shock for both small and large volume Non-Industrial customers. The proposed rates for Phase 1 are presented on Schedule 2 of Exhibit MCB-3, and Schedule 3 of Exhibit MCB-3 presents a typical bill comparison for a range of volumes and customer types for existing and proposed rates. Under the proposed rates, the Non-Industrial customers would see typical bill increases that are greater than the overall requested system increase of 25.5%, while the Industrial customer percentage increase would be approximately one-half of the overall system increase.

Mr. Borchers also explained that because CWA is part of CEG, which also provides water service to a majority of the wastewater customers, the combined water and wastewater bill was analyzed using the rates Citizens Water proposed in its separate water rate case filing. The combined bill was analyzed to assess the overall impact on customers of the water and sewer utilities using the Phase 1 wastewater rates. According to Mr. Borchers, the proposed rates in this proceeding, combined with the proposed rates in the water rate case proceeding that also seeks cost of service recovery by class, result in reasonable increases by class when compared to the combined system average increase. Over future rate proceedings, Black & Veatch envisions the combined increase for commercial or other large volume, Non-Industrial customers should gradually move toward the overall system increase.

With respect to proposed wastewater rates for Phase 2, Mr. Borchers stated that CWA is proposing an additional increase in wastewater customer rates that would go into effect on or about October 1, 2014. Black & Veatch updated its cost of service study to incorporate this proposed increase. The proposed rates for Phase 2 are presented in Schedule 3 of Exhibit MCB-4. Mr. Borchers observed that the proposed rates are designed to continue moving toward cost of service based rates. He expressed his opinion that the proposed Phase 2 rates are reasonable and just from a cost of service standpoint.

B. <u>OUCC's Evidence</u>. Mr. Mierzwa reviewed the Black & Veatch cost of service study and rate design proposals, and made a number of recommendations regarding cost of service issues. First, Mr. Mierzwa noted that bad debt expense has been assigned entirely to the billing and collection functional cost category. He stated that bad debt expense relates to the failure to recover all of CWA's functional costs, not just billing and collections costs. Therefore, bad debt expense should be allocated more broadly across all functional cost categories. Mr. Mierzwa further stated that WEF MOP 27 does not specifically address the assignment of bad debt expense to functional cost categories. Mr. Mierzwa pointed out that in Cause No. 44306, Mr. Borchers presented a water cost of service study based on information contained in the AWWA Rates Manual, which indicates that bad debt expense should be assigned to all functional cost categories. Mr. Mierzwa stated that consistency should be maintained in the assignment of bad debt expense.

Second, Mr. Mierzwa recommended that the Phase 1 and 2 rate increases proposed by

CWA for each customer class serve as the basis for the distribution of the increase ultimately authorized by the Commission in this proceeding (with the exception of Septic Haulers, whose present rates should be maintained). He stated that, to the extent the increase authorized by the Commission is less than that requested by CWA, the proposed increases should be scaled back proportionately for all classes.

Third, Mr. Mierzwa addressed CWA's provision of wastewater service to seven Satellite customers, which are separately-owned wastewater systems that discharge their wastewater to CWA for eventual treatment. Mr. Mierzwa noted the cost of service study indicates the rates and charges to Satellite customers are significantly below the indicated cost of serving these customers, and the Commission should require CWA to pursue all means necessary to renegotiate its contracts with Satellite customers to provide for the recovery of the cost of serving these customers. Mr. Mierzwa testified that, presently, the rates and charges for Satellite customers are governed by contractual arrangements which specify how and when those rates and charges can be increased, if at all.

Finally, Mr. Mierzwa revised the cost of service study to incorporate his recommendation concerning the assignment of bad debt expense. Table 3 in Mr. Mierzwa's testimony presents a comparison of CWA's cost of service study (unadjusted for the re-allocation of Satellite cost of service), and Mr. Mierzwa's revised study and shows that Mr. Mierzwa's recommendation concerning the assignment of bad debt expense has a minor impact on the cost of service study results. Table 4 in Mr. Mierzwa's testimony presents the resulting Phase 1 and Phase 2 increases by rate class based on the OUCC's revenue requirement recommendations and revenue distribution recommendation.

C. Industrial Group's Evidence. Mr. Smith stated CWA's proposed rate design deviates from cost of service rate making principles and results in rates that unfairly burden the Industrial class with the recovery of costs that should be recovered from customers in the Non-Industrial class. Mr. Smith observed that CWA is proposing to subsidize the Non-Industrial class through revenue collected from the Industrial class, which is a clear deviation from cost of service principles in that the Industrial class is being held responsible for the recovery of costs that are caused by the demand characteristics of the Non-Industrial class. He also stated that CWA did not take into consideration the affordability of its proposed rates on Industrial customers. While acknowledging Mr. Borchers's indication that this subsidy is necessary to address affordability issues and to mitigate rate shock related to moving immediately to cost-of-service-based rates, Mr. Smith stated CWA has not demonstrated that implementing cost of service rates would make wastewater service unaffordable and apparently has not pursued other avenues that could reduce the impact on the bills of the Non-Industrial class.

Mr. Smith noted that WEF MOP 27 cites United States Environmental Protection Agency ("EPA") guidance that sets an affordability threshold for annual wastewater charges at 2% of the service area's median household income ("MHI"). This threshold is frequently referred to as the "residential indicator" and is often used by utilities and regulators to determine whether the costs that a wastewater utility must incur in order to meet water quality standards will make service unaffordable for customers. Mr. Smith used the residential indicator to assess the affordability of rates and charges that resulted from CWA's cost of service study. He stated that the residential

indicator does not show that wastewater service would be unaffordable if cost of service rates are implemented. He stated that under cost of service rates the annual bill for a typical customer would be only 1.45% of MHI for the City of Indianapolis and 1.42% of the MHI for Marion County, both of which are well below the EPA threshold of 2% of MHI.

Mr. Smith further criticized CWA's allocation of costs associated with I/I. He explained that there is no rational justification for allocating 1/3 of I/I costs on flow. Instead, Mr. Smith recommended that 90% of I/I related costs be allocated to classes based on the number of customers in each class and 10% allocated based on each class's proportionate share of total wastewater flow. He stated that this approach recognizes that I/I is a function of the entire system and cannot be attributed to specific sources with certainty.

D. OUCC's Cross Answering Evidence. Mr. Mierzwa responded to Mr. Smith's cost of service and rate design testimony. Mr. Mierzwa disagreed with Mr. Smith's claim that, under CWA's rate design, the Industrial class is being held responsible for the recovery of costs that are caused by the demand characteristics of the Non-Industrial class. Mr. Mierzwa stated that Mr. Smith erroneously assumes the costs which are currently unrecoverable from Satellite customers and allocated to the Industrial and Non-Industrial classes in CWA's cost of service study are part of the Industrial and Non-Industrial classes' cost of service. These costs, Mr. Mierzwa observed, are associated with serving Satellite customers.

Mr. Mierzwa testified that Mr. Smith's proposal should be rejected because it ignores the concept of gradualism, which the Commission has adopted. He also noted that Mr. Smith's affordability argument fails to consider the impact on customer budgets and the public perception aspect of affordability.

Mr. Mierzwa also disagreed with Mr. Smith's proposal to allocate 90% of I/I related costs based on the number of customers in each class, and only 10% based on the contributed wastewater flow of each class. He testified that Mr. Smith did not perform any studies or present any evidence to support his proposed 90% / 10% I/I cost allocation and that, additionally, Mr. Smith's claims are inconsistent with WEF MOP 27.

E. Industrial Group's Cross Answering Evidence. Mr. Smith's cross answering testimony expressed disagreement with Mr. Mierzwa's position on CWA's proposed rate design. According to Mr. Smith, CWA's proposed rate design results in an unjustified and arbitrary subsidization of the Non-Industrial class by the Industrial class. In Mr. Smith's view, Mr. Mierzwa's proposal to pass any reduction in the requested revenue increase to all classes proportionately simply perpetuates the Industrial class' subsidization of the Non-Industrial class.

F. CWA's Rebuttal Evidence. On rebuttal, Mr. Borchers explained his method of allocation, noting that bad debt expense is allocated to customers based on their number of bills to reflect that the number of customers by class is a reasonable basis for allocating and recovering bad debt expense. He also pointed out that his proposed allocation basis has been approved by the Commission before, particularly in Cause No. 43645, which established water rates for the majority of wastewater customers in this proceeding. Mr. Borchers recommended that the Commission approve the allocation of bad debt expense used in the Black & Veatch cost

of service study. He observed that should data become available that indicates the breakout of bad debt expense by class, it should be evaluated to determine whether it provides a better allocation basis compared to what has been proposed in this proceeding.

In response to Mr. Mierzwa's suggestion of full cost of service recovery for CWA's Satellite customers, Mr. Borchers stated that while pursuing full cost recovery from these customers is recommended, it is not practical at this time. These customers have contracts that would need to be renegotiated in order to achieve any cost recovery similar to that outlined in the cost of service study. He added that the Black & Veatch cost of service study re-allocates the difference in the Satellite cost of service and pro forma contract revenue to the retail customer classes using their respective retail units of service, which is consistent with industry practice.

Mr. Borchers disagreed with Mr. Mierzwa's recommendation that the increase ultimately authorized by the Commission be distributed on the basis of the proposed Phase 1 and Phase 2 revenue increases by class in CWA's cost of service study. He explained that the appropriate way to distribute any final revenue requirement determined by the Commission would be to revise the total revenue requirements and utilize the cost of service study allocation to derive the new cost of service by class.

Mr. Borchers also criticized Mr. Mierzwa's recommendation that rates and charges for septic haulers be maintained at their existing levels. Mr. Borchers observed that the level of revenue for these customers is such that it does not have a significant impact on the overall cost of service by class. He recommended that these customers be charged the cost of service rate derived in the cost of service study.

According to Mr. Borchers, a review of the proposed changes from Mr. Mierzwa indicates that he agrees in most instances with the approach taken in the Black & Veatch cost of service study. For example, Mr. Mierzwa agrees that full cost recovery from Satellite customers should be pursued but that, at this time, CWA does not have the ability to adjust these rates and begin recovering additional revenue, making it necessary that the retail customers of CWA's wastewater system subsidize the Satellite customers in the interim. Mr. Borchers' recommendation is that the Commission approve the cost of service study performed on behalf of CWA, and that the final determination of revenue requirements for CWA for Phases 1 and 2 be allocated to customer classes using the Revenue Under Proposed Rates by class, excluding the Satellite customer class.

Mr. Borchers also expressed his opinion that the allocation basis he used for I/I costs (66.7% Customer / 33.3% Volume) results in equitable treatment for each customer class. He observed that his I/I cost allocation is commonly used in the industry to reflect that I/I is a function of both the number of customers and their relative size.

With respect to the issue of rate design, Mr. Borchers took issue with Mr. Smith's application of the Residential Indicator for determining affordability. He testified that, while Mr. Smith's calculation provides a snapshot in time of the cost of providing wastewater service as a ratio to the MHI, it is not the Residential Indicator as prescribed by EPA for developing a LTCP. Mr. Borchers explained how the EPA defines the Residential Indicator, noting in part that EPA's

guidance incorporates both current and proposed costs for implementing CSO controls for a wastewater system. Mr. Borchers observed that the actual Residential Indicator as prescribed by EPA would include all current and projected wastewater operating and capital costs, including those for implementing a LTCP. He explained that the present value of these costs through the period of the LTCP, compared to the service area MHI derives the Residential Indicator. He noted that Mr. Smith's analysis does not incorporate CWA's proposed costs for implementing CSO controls.

Mr. Borchers also expressed his view that Mr. Smith ignores the issue of rate shock in his proposed wastewater rates. After referencing the cost of service rates determined by the Industrial Group, Mr. Borchers suggested it appears Mr. Smith does not believe almost doubling a customer's wastewater bill would produce any undue hardship on Residential customers. Mr. Borchers opined, by contrast, that his cost of service approach takes into account rate shock, and that using a gradual approach for implementing a new cost of service study is consistent with standard practice in the wastewater industry. Mr. Borchers observed that the Commission often has been faced with the issue of implementing cost-based rates and the minimization of excessive rate shock, and he cited proceedings in which the Commission has required a gradual movement toward cost-based rates. Mr. Borchers' opinion is that a gradual movement toward cost-based rates is warranted in this proceeding, where it is unknown when, if ever, a cost of service study was last conducted.

Mr. Borchers indicated that the Industrial rates CWA has proposed compare favorably with other communities that are subject to consent decrees requiring them to address CSOs, with CWA's proposed rates for Industrial wastewater service not being unreasonable by comparison. He developed a table which presented the proposed Industrial monthly bill for Phase 1 of this proceeding compared to a similar bill for other communities, based on an estimated monthly volume of 6,000,000 gallons. According to Mr. Borchers, the table showed that a monthly bill using CWA's proposed rates was in line with the other communities that are also subject to consent decrees to address CSOs. He also opined that the table showed that a monthly bill using Mr. Smith's proposed rates was much lower and out of line in comparison to a similar monthly bill for the other communities. Mr. Borchers ultimately recommended that the Commission approve a gradual phase-in of wastewater rates to cost of service in accordance with CWA's cost of service study.

G. OUCC-Industrial Group Cost Allocation Agreement.

1. Terms of the Agreement. The OUCC and the Industrial Group submitted an agreement regarding cost allocation issues. The OUCC and the Industrial Group agree to allocate I/I costs to customer classes such that 90% of the costs are allocated to each class based on the class's proportionate share of the total number of customer accounts, and 10% of the costs are allocated to each class based on the class's proportionate share of wastewater flow volumes.

With respect to the revenue requirement agreed to in the CWA-OUCC Revenue Agreement for Phase 1 rates, the OUCC and the Industrial Group agreed to the following:

- Industrial volumetric rates will increase 0%;

- Industrial surcharge rates will increase or decrease as determined by the application of the 90/10 I/I allocation under CWA's cost of service study;
- Non-Industrial volumetric rates will increase approximately 28% or to $171.831 million;
- Notwithstanding the agreement between the Industrial Group and the OUCC that Industrial volumetric rates will increase 0%, the monthly "Service Charge", the monthly "Minimum Charge", and the monthly "Surveillance Charge", for Industrial customers, which are included in the revenue collected through Industrial volumetric rates in CWA's cost of service study, may be modified from the present rates for these charges as a result of the application of the 90/10 I/I allocation, the other terms of the OUCC-Industrial Group Cost Allocation Agreement, and the ultimate revenue requirement established by the final order of the Commission in this Cause.

With respect to the revenue requirement agreed to in the CWA-OUCC Revenue Agreement for Phase 2 rates, the OUCC and the Industrial Group agreed to the following:

- Total Industrial rates and charges, including surcharge rates, will increase in the aggregate by a total of $1.1 million (¶ 3.a.)
- Industrial surcharge rates will increase/decrease as determined by the application of the 90/10 I/I allocation under the CWA's cost of service study (¶ 3.a.i.)
- Industrial volumetric charges, including any monthly "Service Charge", monthly "Minimum Charge" and/or monthly "Surveillance Charge" will increase by the difference between $1.1 million and the Phase 2 increase for Surcharges (¶ 3.a.ii.)

To the extent that the Commission's final order in this Cause arrives at a revenue requirement lower than that contained in the CWA-OUCC Revenue Agreement, the OUCC and the Industrial Group agreed that the Phase 1 and Phase 2 rates and charges as determined in the OUCC-Industrial Group Cost Allocation Agreement shall be adjusted proportionately to account for the lower revenue requirement. They also agreed that in CWA's next general rate case, there should be further movement toward cost of service rates and that the OUCC-Industrial Group Cost Allocation Agreement does not preclude either party from arguing what cost of service rates are; or how much movement should be made towards such rates.

Finally, the OUCC and the Industrial Group agreed that the OUCC-Industrial Group Cost Allocation Agreement is non-precedential in nature, and that in any future general rate case for CWA, either Settling Party can re-litigate the appropriate allocation of I/I, and/or propose alternative allocations other than the 90/10 I/I allocation accepted under the Agreement.

2. Evidence Supporting the Agreement. Mr. Mierzwa testified that the OUCC-Industrial Group Cost Allocation Agreement resolves all of the issues that relate to cost of service and rate design in this Cause between the Industrial Group and the OUCC. Mr. Mierzwa explained that the OUCC-Industrial Group Cost Allocation Agreement was structured to reach a mutually acceptable resolution of the cost of service issues and avoid the risk, expense, and administrative burden of further litigation. Mr. Mierzwa indicated that a resolution was achieved that avoids litigation, generally moves toward the class cost of service as determined in CWA's case-in-chief, and falls within the range of potential outcomes originally proposed by the Industrial Group and the OUCC.

Mr. Mierzwa said that the OUCC-Industrial Group Cost Allocation Agreement addresses the increase in rates which would apply for both phases of CWA's proposed rate increase. Observing that CWA and the OUCC have reached a separate revenue requirement settlement that specifies the overall amount of increase for CWA in each phase, Mr. Mierzwa explained that the OUCC-Industrial Group Cost Allocation Agreement separately addresses the rate increases which would be applicable if the CWA-OUCC Revenue Agreement were to be approved by the Commission or if the Commission approves an alternative revenue requirement increase.

With respect to the Phase 1 rate increase, Mr. Mierzwa indicated that if the revenue requirement settlement is approved by the Commission, Non-Industrial wastewater rates will increase approximately 28% to $171.831 million. The OUCC-Industrial Group Cost Allocation Agreement provides for no increase in Industrial volumetric rates and for extra strength surcharges to be based on the results of CWA's cost of service study using a 90% customer and 10% wastewater volume allocation for I/I costs.

With respect to the Phase 2 increase, Mr. Mierzwa stated that if the revenue requirement settlement is approved by the Commission, Industrial rates (including surcharges) will increase in the aggregate by a total of $1.1 million. Non-Industrial customer rates will increase to the extent necessary to recover the deficiency between the Phase 2 revenue requirement approved by the Commission in this proceeding, which is not recovered from Industrial customers or the other customers served by CWA. Mr. Mierzwa added that, if the revenue requirement settlement is not approved by the Commission, the OUCC-Industrial Group Cost Allocation Agreement provides that the Phase 1 and Phase 2 rates and charges determined under the OUCC-Industrial Group Cost Allocation Agreement will be adjusted proportionately to reflect the revenue requirement approved by the Commission.

Finally, Mr. Mierzwa expressed his view that the OUCC-Industrial Group Cost Allocation Agreement is in the public interest and represents a reasonable resolution of the issues raised regarding cost of service allocations. He recommended that the Commission approve the OUCC-Industrial Group Cost Allocation Agreement.

CWA did not file supplemental testimony or any exhibits reflecting a position related to the OUCC-Industrial Group Cost Allocation Agreement.

H. Commission Discussion and Findings.

1. OUCC-Industrial Group Cost Allocation Agreement. No Party opposed Commission approval of the OUCC-Industrial Group Cost Allocation Agreement. The evidence in this proceeding regarding the appropriate allocation of costs among the various rate classes varied significantly, as reflected in the testimony of the Parties' respective witnesses on cost allocation. The proposed resolution of the cost allocation issues set forth in the OUCC-Industrial Group Cost Allocation Agreement moves the customer classes closer to the cost to serve, is within the scope of the evidence presented by the Parties and supported by substantial evidence in the record. The OUCC-Industrial Group Cost Allocation Agreement resolves the significant disputed issues on that issue for this proceeding in an efficient manner and represents

a just and reasonable compromise of those issues. While the Industrial Group and the OUCC refer to a 90% Customer / 10% Volume allocation of I/I, they have included terms in paragraph 2 of the Agreement that also affect the resulting allocation of I/I as well. The Industrial Group and the OUCC have also agreed that the Agreement is non-precedential in nature and that either Settling Party can re-litigate the appropriate allocation of I/I and/or propose alternative allocations other than the 90% Customer / 10% Volume allocation.

Based on our discussion above, we find that the OUCC-Industrial Group Cost Allocation Agreement is a reasonable resolution of contested cost-of-service issues raised by the Parties in this proceeding. While the OUCC-Industrial Group Cost Allocation Agreement does not address all issues raised by the various parties in this Cause as explained further below, the agreement is supported by the evidence presented. Therefore, we find that such OUCC-Industrial Group Cost Allocation Agreement is in the public interest and should be approved.

2. Other Issues.

a. Grease Discharge Customers. We agree with Mr. Borchers that the rates and charges for customers known to have food service operations and haulers that discharge grease should remain at their current levels. We further agree that an update to the rates and charges for these customers should be addressed in a future cost of service study once CWA has developed its Fats, Oils, and Grease monitoring plan and determined whether or not to continue with the acceptance of grease at its Belmont treatment plant. Thus, in its next rate case, CWA shall present a cost of service study that includes this classification of customers.

b. Bad Debt Expense. Nothing in the settlement addressed the proper distribution of bad debt in CWA's COSS. The OUCC raised the issue that CWA only assigned bad debt expense entirely to the billing and collection function. The OUCC explained that bad debt should be allocated to all functional costs because bad debt is based on all functional costs. WEF MOP 27 does not address bad debt, but bad debt is addressed in AWWA's M1 Manual regarding a water utility's cost of service study and it requires bad debt to be allocated among all functional costs. Moreover, allocating bad debt across all functional costs is consistent with Citizens Water's COSS filed in Cause No. 44306.

In rebuttal, Mr. Borchers explained that bad debt expense is allocated to customers based on their number of bills to reflect that the number of customers by class is a reasonable basis for allocating and recovering bad debt expense. In part, bad debt expense is a function of the number of customers and the ability of the wastewater utility to follow up with customers to collect outstanding payments that are overdue. Thus, it is reasonable to expect that CWA is unable to collect on outstanding payments for the Non Industrial class that contains the majority of customers. In addition, Mr. Borchers stated that the Commission approved the allocation of bad debt expense based on the number of bills by customers in Cause No. 43645, which is consistent with his proposed allocation.

We agree with the OUCC that bad debt expense should be allocated across all customer classes. As Mr. Borchers stated, bad debt expense, in part, is a function of the number of customers, but it is also computed on the retail rates of those customers, which are based on CWA's net revenue requirement. Nevertheless, as noted on Table 3 - Comparison of Cost-of-

Service Study Results, page 8 of Public's Exh. 7, the impact of this change to CWA's COSS to the various customer classes is minor. Therefore, we accept CWA's allocation of bad debt proposed in this case. But we also find that CWA shall present a cost of service study that allocates bad debt expense across all functional costs in its next rate case.

c. Septic Haulers. The OUCC-Industrial Group Agreement does not address the septic hauler class of customers. Mr. Borchers criticized the OUCC's recommendation that the septic haulers' rate should not be decreased by approximately 52% when costs are increasing. Rates should be designed to allocate CWA's revenue requirements among its customer classes in a fair and reasonable manner. A cost of service study is used to determine the cost of providing service to each customer class. The results of the study should not be simply ignored because of a general belief that costs are increasing.

d. Omitted Billing Cycles. Finally, there was undisputed evidence in this case that CWA had omitted two billing cycles from its pro forma present rate revenues. We note that including the additional billings will impact CWA's Units of Service shown on Petitioner's Exhibit MCB-2, Schedule 2, Column 3, line 1. Therefore, CWA shall update its COSS accordingly and file it concurrently with its tariffs for review and approval.

e. Satellite Customer Contracts. The OUCC pointed out that under CWA's proposed COSS, the rates and charges to Satellite Customers are significantly below the indicated cost of serving these customers. The costs that are under-recovered are spread out across CWA's retail customer classes, resulting in a subsidy of approximately $11.5 million dollars. CWA assumed responsibility to serve these satellite customers under one long-term and six perpetual-term contracts negotiated by the City.

Mr. Mierzwa recommended that we require CWA to pursue all means necessary to renegotiate the Satellite contracts to provide for the recovery of the cost of service from those customers. In rebuttal, Mr. Borchers recognized that pursuing full cost recovery from the Satellite customers would be optimal, but he argued it is not practical at this time.

We are troubled by the $11.5 million dollar subsidy that is being imposed on the retail customer classes because the contracted revenues from the Satellite customers do not cover the cost to serve those customers. As we stated above, rates should be allocated among customer classes in a fair and reasonable manner. CWA's retail customer classes should not be burdened with paying such a large portion of the cost of serving the Satellite customers. We recognize that CWA did not negotiate these contracts, and for that reason, we have not made an adjustment to the COSS in this case to remove the subsidy. But we order CWA to pursue all possible means to renegotiate the Satellite Customer contracts to provide for the recovery of the cost of service from those customers. In its next rate case, CWA shall present evidence detailing the steps it has taken to pursue renegotiation of the contracts and the results of such negotiations.

8. Residential Balanced Billing Mechanism.

A. CWA's Evidence. Ms. Prentice described the Residential Balanced Billing methodology included in Petitioner's Exhibits KLK-3 and KLK-4. Ms. Prentice stated that

Residential Balanced Billing is a consistent monthly sewer bill based on a residential customer's average water usage during the months of December through March ("Basic Average Usage"). Ms. Prentice explained that each individual customer's Base Average Usage is derived from the customer's water usage during the immediately preceding winter months. This Base Average Usage is used as the customer's wastewater billing determinant for each month of the twelve-month period starting each June. Ms. Prentice testified that Residential Balanced Billing will provide a consistent bill amount over a full twelve-month period. Ms. Prentice indicated that summer lawn watering and other incremental summer water use is excluded from the charges because the residential Balanced Billing consumption is based only on winter water meter readings.

Mr. Borchers noted that CWA is proposing to alter its current wastewater billing methodology to recognize the winter-period, average usage for residential and multi-family type customers that are included in its Non-Industrial class. Schedule 2 of Exhibit MCB-2 shows the existing rates and charges and estimated adjustment to the billing units used by CWA for its preparation of the pro forma revenue under existing rates. Mr. Borchers explained that the adjustments to the Non-Industrial volumes were determined by deriving a winter-period average for residential and multi-family type customers, using the months of December through March. Mr. Borchers testified CWA used these adjusted units in the cost of service study, and expressed his view that the adjusted billing units provide a reasonable basis for estimating the contributed wastewater volumes from residential and multi-family customers. Mr. Borchers stated that it is common within the wastewater utility industry, and consistent with WEF MOP 27 guidelines, to use winter-period averages to estimate contributed wastewater volumes and perform billing functions.

B. OUCC's Evidence. Mr. Mierzwa addressed CWA's proposal to adopt a new Residential Balanced Billing Mechanism. He stated that it is not clear why CWA could not bill each customer based on actual water usage during the months of December through March and then, effective in April, bill the customer based on the Base Average Usage volume. This, he stated, would align a customer's bill more closely with any changes in water usage, and he suggested that CWA should address this issue in its rebuttal testimony.

Mr. McIntosh explained that CWA's Base Average Usage for residential customers used to determine wastewater billing for each month of a twelve-month period starting in June of each year is based on average of the customer's bills using the most recent winter months' water usage. He noted that this practice is customary in the wastewater industry, but it does not take into consideration the part-time residents or college students who move back home during the summer months. Mr. McIntosh recommended CWA bill residential customers for the actual water used for the months of December through March and use the Base Average Usage for months starting in April instead of June of each year.

C. Industrial Group's Evidence. Mr. Smith testified that CWA's proposed Balanced Billing approach results in the over-recovery of costs from the Industrial class. Mr. Smith testified that the use of the balanced billing approach underestimates the flow volume contributed by the residential customers in the Non-Industrial class and thereby results in an over statement of I/I and, consequently, a misallocation of costs. Mr. Smith recommended that CWA

continue to bill customers in the way in which it currently bills customers and that the pro forma contributed volumes for residential customers be based on that billing approach as opposed to the Balanced Billing approach.

D. OUCC's Cross-Answering Evidence. Mr. Mierzwa urged rejection of Mr. Smith's claim that CWA's balanced billing proposal is unnecessary and results in an over allocation of costs to the Industrial class. According to Mr. Mierzwa, Mr. Smith presented no evidence indicating that the balanced billing proposal results in billings for the residential class which is not reflective of actual contributed flows. Mr. Mierzwa added that WEF MOP 27 finds the use of winter volumes for residential customers reasonable for cost allocation purposes.

E. Industrial Group's Cross Answering Evidence. With respect to the issue of billing, Mr. Smith stated he does not disagree in principle with Mr. Mierzwa's recommendation to bill based on actual water consumption during the months of December through March and then on the basis of average winter consumption for the remainder of the year. Mr. Smith said, he does not believe any change that potentially results in lower projected billed consumption should be instituted at a time when costs are increasing as dramatically as they are in this case. In Mr. Smith's opinion, reducing projected billed volume not only results in an overestimate of I/I, but also reduces billable volume of wastewater to which the volumetric charge can be applied, thus requiring a larger than necessary increase in the volumetric rate. Mr. Smith recommended that CWA continue to use the billing approach that is currently in use.

F. CWA's Rebuttal Evidence. Ms. Prentice prepared a calculation showing that the OUCC's proposed adjustments to the Residential Balanced Billing mechanism would result in very minimal, if any, difference in customers' annual bills when compared to CWA's proposed Balanced Billing Mechanism. Therefore, Ms. Prentice recommended the Commission approve CWA's proposed Balanced Billing Mechanism, without change. Ms. Prentice stated that she would not be comfortable with the Balance Billing mechanism beginning in April as proposed by the OUCC. Ms. Prentice believes it is necessary for CWA to have at least one month between the final month of the Base Average Usage period (*i.e.*, March) and the first month of the Balanced Billing Mechanism to perform quality testing and to confirm that customers' revised Base Average Usage volume has been calculated correctly. Ms. Prentice stated that this time period would allow CWA to perform quality testing before implementation rather than being forced to suspend billing customers for a number of days awaiting a "fix" to any calculation issues.

In response to Mr. Smith's testimony regarding the issue of CWA's proposed balanced billing methodology, Mr. Borchers testified that charging residential and multi-family customers based on an average of their winter period water usage is accepted in the wastewater industry. In Mr. Borchers' opinion, the balanced billing method provides a more accurate estimate of the contributed wastewater that enters CWA's system from Residential and Multi-Family customers when compared to the current methodology. He stated that the billed volume adjustment also better reflects the contributed wastewater volume for the Non-Industrial class. Mr. Borchers recommended that the Commission approve CWA's proposed balanced billing methodology and the associated billing units used in the Black & Veatch cost of service study.

G. Commission Discussion and Findings. The Commission generally supports the OUCC's position. We agree with the OUCC that Petitioner's proposal to use the base average usage for a complete twelve months should not be accepted because actual usage in the winter months can and should be billed. Further, we agree with the OUCC's recommendation that CWA bill the residential customers for the actual water used for the months of December through March and use the Base Average Usage for those months starting in April with one modification. Ms. Prentice requested one month between the final month of the Base Average Usage period (i.e., March) and the first month of billing based on the Base Average Usage for quality testing to confirm that the Base Average Usage was calculated correctly. We agree; therefore, CWA shall issue a bill based on actual data for the months of December through April and shall issue a bill based on the Base Average Usage for the months of May through November.

9. CWA's Terms and Conditions for Service.

A. General Revisions to Tariff and Terms and Conditions for Service.

1. CWA's Evidence. Mr. Kilpatrick described certain miscellaneous changes to CWA's tariff and Terms and Conditions for Sewage Disposal Service and sponsored Petitioner's Exhibits KLK-1 through KLK-4, which are the revised versions of CWA's tariffs and Terms and Conditions for Sewage Disposal Service.

2. OUCC's Evidence. Mr. McIntosh made recommendations with respect to Sections 1.6, 2.2, 4.3, 20.3, and 22.1 of CWA's proposed Terms and Conditions for Service.

Mr. McIntosh said the OUCC was concerned about the following addition to Rule 2.2, which states, "In addition, all Sewage Disposal Service furnished by the Utility is subject to rules and regulations as adopted by resolution of the Board." Mr. McIntosh explained this addition would incorporate "rules and regulations" that are not set forth in CWA's Terms and Conditions and that have not been approved or authorized by the Commission. This would effectively allow CWA's Board to make changes to the Terms and Conditions without Commission oversight or approval. Mr. McIntosh recommended CWA's proposed addition to Rule 2.2 be rejected.

Mr. McIntosh opposed CWA's proposed change to Section 4.3, which currently reads: "Replacement or repair of an existing individual Building Sewer that does not increase EDUs will not constitute a new connection." CWA proposed adding the qualification "provided the Building Sewer has been an active Customer connection within the past 36 months." Mr. McIntosh was concerned that inclusion of this language could result in CWA recovering the connection fee per EDU twice.

Finally, Mr. McIntosh opposed the proposed additions to Rule 22.1, requiring customers to be responsible for maintaining portions of the Building Sewer. Mr. McIntosh specifically disputed the addition of the word "roots" and language stating customers would be responsible for clogs caused by their "inactions." Mr. McIntosh stated these additions shift responsibility to the customer for the maintenance and repair of the CWA's portion of the Building Sewer because of inactions or roots that may enter the Building Sewer. Mr. McIntosh recommended the words "roots" and "inactions" not be added to Rule 22.1.

3. CWA's Rebuttal. Mr. Kilpatrick said that the additions to Section 2.2 were designed to provide greater clarity on the additional rules and regulations that apply to certain customers and those rules are confined to regulations in furtherance of the National Industrial Pretreatment Program (the "National IPP"). Mr. Kilpatrick further stated that CWA's proposed change to Section 4.3, which relates to replacement or repair of an existing individual Building Sewer, is designed to prevent Developers from avoiding or minimizing connection fees by reusing the existing building sewer when the form and function of the actual property, which may have been vacant or unused for several years, is very different.

Mr. Kilpatrick recommended the Commission accept CWA's addition of the words "roots" and "inactions" to Section 22.1. Mr. Kilpatrick stated the proposed additions ensure the homeowner is responsible for keeping the Building Sewer free from blockages caused by debris from the homeowner's property, including the most common blockage caused by tree roots. Mr. Kilpatrick noted that routine root prevention by the homeowner should control tree roots regardless of their source, and will prevent the need of CWA to find funds and additional resources to address replacements if it were to assume this responsibility.

4. CWA-OUCC Revenue Agreement. In the CWA-OUCC Revenue Agreement, the OUCC and CWA agreed that the miscellaneous revisions to CWA's tariff and terms and conditions for service set forth in Petitioner's Exhibits KLK-1 through KLK-4, and described in Mr. Kilpatrick's should be approved by the Commission, except for the proposed changes to Rule 2.2 and the additions of the words "roots" and "or inactions" to Rule 22.1.

5. Commission Discussion and Findings. Based on the Stipulation and Settlement Agreement between the OUCC and CWA and the evidence presented in this proceeding, we approve the miscellaneous revisions to CWA's tariff and terms and conditions for service set forth in Petitioner's Exhibits KLK-1 through KLK-4, with the exception of the two modifications specifically delineated in the Settlement Agreement.

B. CWA's Terms and Conditions for Service Relating to the National IPP. The OUCC and Industrial Group expressed concern with the current language of CWA's Rule 20.3, which provides "Industrial Customers shall comply with all categorical pretreatment standards, found in 40 CFR Chapter 1, Subchapter N, Parts 405-471, the pretreatment standards found in 327 IAC 5-12-6, as well as any rules and regulations adopted by Resolution of CWA's Board in furtherance of those pretreatment standards."

1. OUCC's Evidence. Mr. McIntosh recommended adding the phase "with the approval of the Commission" to Rule 20.3. Mr. McIntosh stated that rules and regulations related to the Pretreatment Program should be approved by the Commission.

2. Industrial Group's Evidence. Mr. Smith similarly testified that a regulated entity such as CWA should not be allowed to adopt and impose requirements on customers without the Commission's consent. Mr. Smith noted that on CWA's website, there are at least two resolutions, Nos. 2-2011 and 3-2011, approved by the Board on December 12, 2012, which, purport to regulate discharges into the system, impose pre-treatment requirements on certain customers, impose fines, and create an administrative adjudication process outside of the

Commission's own rules. Mr. Smith stated his concern that rules and regulations adopted by the Board may conflict with the Commission's jurisdiction over CWA, leaving customers uncertain as to which set of requirements to comply with.

3. CWA's Rebuttal Evidence. Mr. Kilpatrick stated that Mr. McIntosh's proposed addition to Rule 20.3 should be rejected. Mr. Kilpatrick testified that Rule 20.3 does not pertain to the establishment of rates and charges, but rather requires self-reporting Customers to comply with pretreatment standards found in the Code of Federal Regulations, Indiana Administrative Code, and rules and regulations adopted by the CWA's Board in furtherance of those pretreatment standards.

Ms. McIver explained the National IPP and described how CWA is complying with that program. Ms. McIver testified that the Clean Water Act established a regulatory program to address indirect discharges from industries to publicly owned treatment works ("POTWs"), known as the National IPP. The National IPP is directly overseen by the EPA and, for some communities in Indiana, the Indiana Department of Environmental Management ("IDEM"). The National IPP requires all POTWs to establish local pretreatment programs, which must be approved by the EPA. She stated that the EPA and IDEM have sole authority to oversee rules and regulations adopted by CWA, to administer the National IPP. The EPA and IDEM also have on-going regulatory oversight of the implementation of the National IPP and routinely review the overall performance of a POTW.

As the "Control Authority," Ms. McIver stated CWA will be obligated to monitor each industrial user at least annually and establish mechanisms to accomplish the program objectives, which include issuing permits and requiring permit holders to be in, or return to, compliance. If an industrial user is noncompliant, U.S. EPA regulations require the Control Authority to implement an enforcement response plan. The Control Authority also must establish regulations for obtaining permits under the National IPP and discharge limitations to protect the treatment works. Ms. McIver stated that the Board of Directors for CWA adopted three resolutions to support the implementation of the National IPP.

These Resolutions have been submitted to the EPA and will be effective upon its approval of the City's delegation to name CWA as the Control Authority for purposes of the National IPP. CWA is not requesting any substantive changes be made to the National IPP. During the evidentiary hearing, Mr. Kilpatrick explained his understanding that the fees that are currently in the program have been established in the municipal code because the City is still the Control Authority, and that CWA is acting on its behalf until a delegation application can be approved by the EPA.

Ms. McIver noted that in Cause No. 43936, CWA made clear its Board would independently implement rules to enforce the National IPP and rules governing pretreatment would not be included in the Terms and Conditions for Sewage Disposal Service, but would be adopted by separate Resolutions and made available to affected customers.

Ms. McIver stated it would not be administratively effective for the Commission to retain staff familiar with the complex regulatory obligations that a POTW must meet. In addition,

because the obligation of the POTW to implement the National IPP program is contained in the NPDES permit issued by the IDEM, the involvement of another state agency would create an administrative complexity to implementation of the program. In Ms. McIver's opinion, implementation of the National IPP should remain solely with the EPA and IDEM. Accordingly, Ms. McIver recommended the Commission reject any proposal that rules adopted by the Board relating to the National IPP be submitted to and approved by the Commission pursuant to the 30-day filing process or otherwise.

4. Commission Discussion and Findings. Based on the evidence presented, we reject the proposed changes to Rule 20.3. The EPA's National IPP regulations require all large POTWs, like CWA, to establish local pretreatment programs and a system for enforcement of the pretreatment standards. A POTW must issue individual permits to all significant industrial users. 40 C.F.R. §§ 403.8(f), 403.3(v)(1)(ii). The permits must establish effluent limits, as well as self-monitoring, sampling, reporting, notification and recordkeeping requirements. 40 C.F.R. § 403.8(f)(1). POTWs also must develop and enforce specific effluent limits for industrial users. 40 C.F.R. § 403.5(c)(2). POTWs must assess penalties against industrial users for violations of the pretreatment standards. 40 C.F.R. § 403.8.

The rules CWA established relating to the National IPP and enforcement of those rules are subject to approval and oversight by the EPA and IDEM. Initially, the specific terms of the pretreatment program developed by a POTW must be submitted to the EPA for authorization. 40 C.F.R. § 403.8(b). The pretreatment program also is incorporated in and becomes a requirement of a POTW's NPDES permit. 40 C.F.R. § 403.7. The terms of and compliance with CWA's NPDES permit are subject to IDEM's jurisdiction.

In light of the substantial regulation of the National IPP by the EPA and IDEM, we find that any further attempt to regulate that process by this Commission would be superfluous. Therefore, we reject the proposed changes to Rule 20.3.

10. Miscellaneous Issues Resolved in the CWA-OUCC Revenue Agreement.

A. Acquisition Savings.

1. CWA's Evidence. Mr. Johnson testified that in Cause No. 43936, Citizens Energy Group, with the assistance of Booz & Company, conducted an analysis to identify the synergies and associated cost savings that could be realized by transferring the operations of the water and wastewater utilities to combine the water, wastewater, gas, and steam utilities serving Indianapolis. This analysis showed an estimated $60 million of annual savings. Mr. Johnson stated that CEG has tracked the savings achieved and reported such findings in its "First Semi-Annual Report Regarding Savings and Other Matters," which projected that savings generated through September 30, 2012 for O&M expenses alone were estimated at $26 million; and, in the "Second Semi-Annual Report Regarding Savings and Other Matters," which reflects an approximate net savings of $111.9 million for the first full fiscal year of operations.

Mr. Johnson summarized the drivers behind some of the savings achieved by Citizens Energy Group. Mr. Johnson explained that attrition or the reduction in the total, full-time-equivalent employee count by 191 as of September 30, 2012, resulted in O&M savings. In

addition, O&M savings resulted from the elimination of duplicative general and administrative costs, such as back office functions, redundant positions, consolidation of telephone systems, information technology networks and data centers, and corporate shared services. Mr. Johnson noted that many of the O&M expense savings cannot be attributed to specific lines of business since a functional operating model is used, but these savings are manifested in the form of reduced cost allocations from the common expense areas such as Corporate Support Services.

Mr. Harrison described the Capital Programs and Engineering ("CP&E") Group and how it benefits Citizens Energy Group's efforts to plan, design, and construct efficient capital improvement projects that have the potential to produce savings for the ultimate benefit of CWA's customers. Mr. Harrison stated that the CP&E Program Management Department works to identify economies of scale and better forecast how and when to buy materials, equipment and services. Mr. Harrison also described the manner in which CWA uses value engineering to achieve savings in the completion of capital projects.

2. OUCC's Evidence. Mr. Kaufman testified that anticipated savings and lower rates were an essential component of CEG's proposal to acquire the City's wastewater utility. He noted Mr. Johnson's testimony that Citizens Energy Group achieved $111.9 million in net synergies in the first year of operations as a result of the acquisition, and he observed that CEG had initially anticipated only $24.6 million of net savings during the first year of operations. Mr. Kaufman stated that CWA was required to discuss how savings achieved from its acquisition of the wastewater utility would affect its proposed rate increase.

Mr. Kaufman stated that CWA's testimony is not helpful to evaluate how its identified savings provide measurable rate relief to its ratepayers. He testified that CEG committed substantial time, money, and resources to evaluate and estimate the savings that would be achieved by acquiring the wastewater utility from the City. Mr. Kaufman stated the anticipated savings and lower rates were an essential basis for completing the acquisition of the wastewater system. Mr. Kaufman testified CWA claims that rates will be lower, but its inability to explain how its estimated savings translates into lower rates appears to be inconsistent with the requirement of the settlement agreement in Cause No. 43936, which required CWA to "show how such savings have affected the proposed rate increase." Mr. Kaufman stated that CWA has not provided information in its case-in-chief that would allow a determination of whether CWA is on track to deliver on its proposal that its acquisition of the water and wastewater systems will produce savings and have rates that are 25% lower than that which would have occurred under the City's ownership.

Mr. Kaufman noted that in Cause No. 43936, Mr. Brehm included Exhibit JRB-1 titled Wastewater System Financial Summary. Mr. Kaufman's testimony indicated Exhibit JRB-1 projects the financial performance of the Wastewater System assuming CWA acquires the Wastewater System and shows projected rate increases for the utility through 2025. Exhibit JRB-1 showed a projected rate increase for the wastewater utility of 10.75% in 2014, whereas CWA's proposed rate increase of 24.78% in this Cause is more than twice the 10.75% projected rate increase in JRB-1. Mr. Kaufman explained that it is realistic to review Citizens Energy Group's projections in JRB-1 and to compare CWA's projected rate increase from JRB-1 to its proposed rate increase in this Cause. He indicated that CWA's failure to document how its achieved

savings directly influence its proposed rate increase makes it difficult to evaluate whether Citizens will be able to achieve its initial projection of lower rates arising from its acquisitions.

3. **CWA's Rebuttal.** Mr. Kilpatrick responded that the savings presented in the semi-annual savings reports impact the revenue requirement in two primary areas, O&M and capital expenses. With respect to O&M expenses, Mr. Kilpatrick noted that the primary impact of the savings is in cost avoidance. He further indicated that, because of the acquisition, CWA has seen savings in its O&M expenses and CEG has seen savings in its CSS, SFS, Customer Service, and CP&E divisions.

Mr. Kilpatrick sponsored Petitioner's Exhibit KLK-R1, which shows there are $7.9 million in O&M savings that are attributable to CWA. Mr. Kilpatrick testified that, if these savings had not been achieved, CWA would have had to include an additional $7.9 million in its proposed revenue requirement in this proceeding. According to Mr. Kilpatrick, that would have meant a proposed increase of $57.2 million instead of $49.3 million in Phase 1, so the proposed increase in this proceeding is 13.8% lower as a result of the acquisition than it would have been.

Mr. Jacob testified regarding the impact of the savings on CWA's capital program. Mr. Jacob indicated initially that, to date, a total cost savings of $106,744,660 is projected to be achieved in the construction of the Deep Rock Tunnel Connector project. He explained that capital savings achieved and to be achieved in completing the Deep Rock Tunnel do not necessarily impact the rate relief sought in this proceeding.

Mr. Jacob testified that CWA's approach in constructing the Deep Rock Tunnel Connector project demonstrates Citizens Energy Group's method of leveraging short-term savings to provide for more significant long-term savings than might otherwise be realized. Mr. Jacob noted that while still meeting all Consent Decree requirements, CWA began working to re-sequence the Consent Decree tunnel projects, and their key elements, to implement certain projects sooner than the Consent Decree currently prescribes. This re-sequencing plan requires increased shorter-term cash flows that have been made available by the lower cost of the Deep Rock Tunnel Connector project bid.

Mr. Jacob said that CEG estimates the savings potential of this re-sequencing plan will create future capital savings of approximately $30 to $50 million, throughout the life of the Consent Decree program. Mr. Jacob testified the re-sequencing will provide savings to customers in at least three ways. First, the re-sequencing is reducing the overall cost of the Consent Decree, which will reduce the need to borrow money over the life of the program. Second, by moving up the timing of other projects, the debt to support those projects is being issued while rates are still closer to historical lows, which potentially reduces the interest rate risk if these borrowings were to occur in future years in a higher interest rate environment. Third, by smoothing out total capital expenditures from year-to-year, re-sequencing will allow CWA to issue a more steady and predictable amount of debt each year, potentially serving to increase investor confidence in CWA and the Consent Decree program, which will also help in attracting bond investors. Mr. Jacob testified that all three of these benefits should serve to mitigate future rate increases.

In response to Mr. Kaufman's reference to the financial projection of the wastewater system that was presented in Cause No. 43936, Mr. Brehm observed that the 10.75% rate increases effective on January 1, 2012, and January 1, 2013, were adopted by the City-County Council prior to execution of the Asset Purchase Agreement and were approved by the Commission for CWA in Cause No. 43936. He indicated that both the financial projection and the actual results of CWA for fiscal years 2012 and 2013 include those rate increases. Nevertheless, he stated, the actual revenue of the wastewater system in fiscal years 2012 and 2013 is substantially less than the amount reflected in the financial projection. According to Mr. Brehm, the actual revenue of the wastewater system for 2012 is $156.5 million, whereas projected 2012 revenues of $171.8 million were shown on the financial projection. Mr. Brehm also stated that the actual revenue for the entire fiscal year 2013 undoubtedly will be far below the projected 2013 revenues of $189.3 million shown on the financial projection.

4. CWA-OUCC Revenue Agreement. In the CWA-OUCC Revenue Agreement, CWA and the OUCC agreed to the following language:

> In a time period to be agreed upon by [CWA and the OUCC] but no less than 90 days in advance of [CWA] filing its next rate case, [CWA] will collaborate with the OUCC in a meeting or meetings to discuss the presentation of testimony to be included in that case describing savings achieved from the acquisitions and how such savings have affected the proposed rate increase pursuant to Paragraph 8(c) in the Settlement Agreement approved in Cause No. 43936.

Ms. Prentice testified that this provision resolves the issues raised by the OUCC regarding CWA's presentation of testimony regarding acquisition savings.

5. Commission Discussion and Findings. Section 8(c) of the Settlement Agreement in Cause No. 43936 required CWA to present testimony in future rate cases describing the savings achieved from the proposed transactions and how such savings have affected the proposed rate increase. The OUCC expressed its concern that CWA's case-in-chief evidence about the savings was insufficient. In rebuttal, CWA presented additional detail to attempt to quantify the impact of the savings achieved to date on the proposed revenue requirement. The Settlement Agreement contains an additional commitment by CWA to work with the OUCC in an effort to more effectively demonstrate the impact that savings achieved from the proposed transactions have on the proposed revenue requirement.

Based on the evidence presented, we find that CWA has complied with the savings reporting requirement of the 43936 Order. But we also agree with the OUCC that detailed evidence like that submitted in CWA's rebuttal case should have been submitted in its case-in-chief. As a result, we find that the terms of the CWA-OUCC Revenue Agreement represent a reasonable resolution of this issue going forward with a modification consistent with that discussed in Cause No. 44306. Prior to the filing of CWA's next rate case or the filing of Citizens Water's next rate case, whichever comes first, CEG shall collaborate with the OUCC, Intervenors, and the Commission's Water/Sewer Staff in a meeting or meetings to discuss the presentation of testimony describing savings achieved from the acquisitions and how such savings have affected the proposed rate increase.

B. Sanitary Master Plan and Capital Reporting.

1. OUCC's Evidence. Mr. Rees testified that in response to an OUCC Data Request, CWA indicated its 2004 Sanitary Service Master Plan ("Master Plan") had not been updated. Mr. Rees expressed his view that for a utility of the size and complexity of CWA, such a Master Plan would have obvious value, particularly relative to infrastructure and operations. Mr. Rees recommended that CWA be required to produce an updated Master Plan to the Commission and the OUCC by the end of 2014. The OUCC also suggests that future updates be scheduled at an interval of no longer than 5 years.

Mr. Rees also recommended that the Commission require CWA to annually file (within 90 days of the end of the fiscal year) a report comparing the estimated capital costs per project category (as shown on Petitioner's Exh. LCL-2) with the actual costs incurred. Mr. Rees further recommended that CWA file with the Commission annually its five-year capital expenditure forecast containing the required plant and distribution system projects.

2. CWA's Rebuttal Evidence. In response to Mr. Rees' Master Plan recommendation, Mr. Jacob stated it is not possible to complete a new Master Plan in the timeframe recommended by Mr. Rees. Mr. Jacob noted that CWA is currently evaluating an update to the Master Plan. Mr. Jacob indicated that the update is anticipated to be completed by the end of calendar year 2015, and CWA can provide to the OUCC, at its request, a copy of the updated Master Plan once it is completed.

Mr. Jacob disagreed with the OUCC's recommendation that the Master Plan be updated every 5 years thereafter. Mr. Jacob testified that updates should be based upon monitoring how data, updated capital plans, growth, and flow projections are trending. In Mr. Jacob's opinion, regular five-year updates would be counterproductive, inhibit CWA's planning process, and require the expenditure of monies at unneeded intervals.

During the evidentiary hearing, Mr. Jacob clarified that the completion of a new master plan involves updates, projections, and data gathering related to population, flows in the interceptors, capital planning, and a lot of modeling and growth projections on how the county would grow out. He said that in order to gather data on flow, CWA would have to put flow meters into the pipe system, analyze the data, run it through a model, then factor in at the same time the growth in the county that is occurring. Mr. Jacob opined that there is a tremendous amount of work required to get to a point where CWA would have a draft report, and once a draft is produced, CWA would still go through a process of review and quality assurance/quality control. Mr. Jacob said that the entire process would take more than one year.

In response to the OUCC's recommendation that CWA annually file a report comparing the estimated capital costs per project category with the actual costs incurred, Mr. Jacob testified that if requested by the OUCC after the end of a fiscal year, a summary report could be made available to the OUCC. Mr. Jacob expressed concern regarding the OUCC's recommendation that CWA file with the Commission a capital expenditure forecast as described by Mr. Rees. Mr. Jacob stated the projected costs contained in the forecast are utilized in CWA's planning of the

capital program's projects and, as such, if that information were to be made publicly available, it could be utilized by vendors to set specific bid values on projects rather than providing actual true costs to construct specific projects. Mr. Jacob testified this would obviously be financially detrimental to both CWA and its customers, and stated that CWA does not believe it is prudent to establish any mechanism where that information is distributed outside of Citizens Energy Group.

3. CWA-OUCC Revenue Agreement. CWA and the OUCC agreed that to the extent CWA decides to update the Master Plan, it will provide a copy of the updated Master Plan to the OUCC upon completion. If no update to the Master Plan is completed by the end of calendar year 2015, CWA will provide the OUCC an update on the status of any planned updates to the Master Plan."

4. Commission Discussion and Findings. We find the agreement which is reflected in the CWA-OUCC Revenue Agreement represents a reasonable resolution of the foregoing issues. Under the terms of the CWA-OUCC Revenue Agreement, CWA will provide the OUCC access to the Master Plan when it is updated. Additionally, CWA will provide a report to the OUCC that compares the estimated capital costs per project category with the actual costs incurred as agreed by Mr. Jacob in his rebuttal testimony. Therefore, we approve terms of the CWA-OUCC Revenue Agreement with respect to the Master Plan and capital reporting requirements. CWA shall simultaneously file under this Cause any reports provided to the OUCC.

We are disappointed, however, in the lack of testimony related to capital improvements. Aside from the categorical overview provided by Mr. Lindgren, CWA provided two to three sentence explanations for its five most significant capital projects (completed since acquisition) along with a 10-line Expenditure Summary Chart representing annual investments between $200 and $231 million per year over the next five years. Only the major categories were explained as opposed to identifying/addressing specific projects. While we do not wish to needlessly generate paperwork, we desire a solid understanding of CWA's Capital Improvement Program and expenditures. We are concerned that we do not have a sufficient understanding of CWA's Capital Expenditures or their Program outside of the Consent Decree, and we expect that in future cases, testimony will adequately describe and support the proposed plan.

C. Reporting Regarding Issuance of Long-Term Debt.

1. Evidence Presented. Mr. Kaufman proposed that within 30 days of closing on any long-term debt issuance, CWA should file a report with the Commission and serve a copy on the OUCC. Mr. Kaufman recommended the report explain the terms and purpose of the new loan, including the amount of debt service reserve. In addition, Mr. Kaufman proposed that if CWA (or its custodial agent) spends any of the funds from its debt service reserves for any reason other than to make the last payment on its respective debt issuance, CWA should be required to provide a report to the Commission and the OUCC within 5 business days. Mr. Kaufman outlined the contents of the report he recommended be filed.

CWA did not object to filing reports following closing of any new long-term bond

issuance. But CWA did object to filing a report describing any funds used from the debt service reserve. Mr. Brehm explained that Mr. Kaufman's requested reporting appears to be based on his misunderstanding of the facts of the debt service reserve funds. The terms of CWA's bonds require it to maintain these funds in a restricted account. In addition, Mr. Brehm asserted that Mr. Kaufman's request is unnecessary and redundant because in the Annual Report CWA files with the Commission for the wastewater system, the annual balance in the debt service reserve fund accounts is documented.

2. **CWA-OUCC Revenue Agreement.** The CWA-OUCC Revenue Agreement requires CWA to provide a report regarding any long-term debt issuances. The OUCC and CWA agree that the true-up reports to be filed for the Phase 1 Debt Issuance and Phase 2 Debt Issuance satisfy CWA's obligation under this Paragraph for those debt issuances, and that any reports provided pursuant to Section IV of the Settlement Agreement approved in Cause No. 44053 will satisfy CWA's obligation under this Paragraph for debt issuances that are the subject of those reports.

3. **Commission Discussion and Findings.** We find that the terms of the CWA-OUCC Revenue Agreement with respect to reporting related to long-term debt issuances are reasonable. We find the foregoing agreement strikes an appropriate balance between the need for interested stakeholders to have sufficient information and concerns expressed by CWA regarding filing reports that are duplicative or unnecessary. Therefore, we approve the terms of the CWA-OUCC Revenue Agreement with respect to reporting related to long-term debt issuances.

11. Effect of Settlement Agreements. The parties agree that the CWA-OUCC Revenue Agreement and the OUCC-Industrial Group Cost Allocation 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 CWA-OUCC Revenue Agreement, a copy of which is attached to this Order, is approved as modified and discussed above.

2. CWA is authorized to increase its Phase 1 rates and charges for wastewater utility service so as to generate additional revenues of $38,253,568 to arrive at total operating revenues of $219,731,372, representing a 21.08% overall increase in its pro forma operating revenues.

3. Effective October 1, 2014, CWA is authorized to further increase its Phase 2 rates and charges for wastewater utility service to generate additional revenues in the amount of $12,325,992 to arrive at total operating revenues of $232,057,364, representing an additional 5.61% overall increase in its pro forma operating revenues.

4. The OUCC-Industrial Group Cost Allocation Agreement, a copy of which is attached to this Order, is approved as modified and discussed above.

5. The proposed changes to CWA's Terms and Conditions of Wastewater Service, which were filed in this Cause as Petitioner's Exhibits KLK-1 through KLK-4, are approved, subject to the modifications specified above.

6. CWA shall file with the Water/Sewer Division of this Commission, prior to placing into effect the Phase 1 and Phase 2 rates and charges and Terms and Conditions for Wastewater Service authorized herein, tariff schedules set out in accordance with the Commission's rules for filing utility tariffs. Said tariffs, when filed by CWA and approved by the Commission, shall cancel all present and prior rates and charges. CWA shall also provide an updated COSS and revenue proof consistent with the discussion above.

7. Prior to the filing of CWA's next rate case or the filing of Citizens Water's next rate case, whichever occurs first, CEG shall collaborate with the OUCC, the Commission's Water/Sewer Staff, and the intervenors in this Cause in a meeting or meetings to discuss the presentation of testimony describing savings achieved from the acquisitions and how such savings have affected the proposed rate increase.

8. In its next rate case, CWA shall file a COSS that is consistent with our discussion above.

9. To the extent CWA updates the Marion County Sewer Master Plan, it shall provide a copy to the OUCC and the Commission as directed above.

10. Within 60 days after the effective date of this Order, CWA shall file under this Cause a report with the Commission that includes a detailed, prioritized list of the planned STEP Projects as described above. In addition, beginning 13 months after the effective date of this Order, CWA shall file under this Cause an annual report that includes any updates or changes to the list of STEP projects previously filed with the Commission a list of all STEP projects completed, including costs, for the twelve-month period ending one month prior to the date of the report. CWA shall file this annual report so long as the STEP program continues or until directed otherwise by the Commission's Water/Sewer Division Staff.

11. CWA shall pay the following itemized charges within twenty (20) days of the date of this Order to the Secretary of this Commission:

Commission charges:	$ 42,686.95
OUCC charges:	$ 159,732.62
Legal charges:	$ 140.28
Total	$ 202,559.85

CWA shall pay all charges prior to placing into effect the rates and charges approved herein.

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

ATTERHOLT, MAYS, STEPHAN, AND ZIEGNER CONCUR; WEBER ABSENT:

APPROVED: APR 23 2014

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

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN TWO PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO, AND (2) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE	)	**CAUSE NO. 44305**

STIPULATION AND SETTLEMENT AGREEMENT

CWA Authority, Inc. (the "Authority" or "Petitioner") and the Indiana Office of Utility Consumer Counselor (the "OUCC") (Petitioner and the OUCC each a "Settling Party" and collectively the "Settling Parties"), solely for the purpose of compromise and having been duly advised, stipulate and agree that the following terms and conditions represent a fair, reasonable and just resolution of the issues set forth in this Stipulation and Settlement Agreement ("Agreement"), subject to their incorporation into a non-appealable final order of the Indiana Utility Regulatory Commission ("Commission") without modification or further condition that is unacceptable to either Settling Party. If the Commission does not approve this Agreement in its entirety, the entire Agreement shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Settling Parties.

I. Revenue Requirement and Stipulated Phase 1 and Phase 2 Increases

1. The Settling Parties agree that Petitioner's total pro forma operating revenues at present rates are $181,477,804. Upon the Commission's issuance of a final order approving this Agreement, the Settling Parties agree that Petitioner should be authorized to increase its rates and charges to generate additional revenues of $39,115,178 to arrive at total operating revenues of

$220,592,982 (the "Phase 1 Increase"). The Settling Parties further agree that a final order approving this Agreement should authorize Petitioner to increase its rates and charges on October 1, 2014 to generate additional revenues in the amount of $12,315,688 to arrive at total operating revenues of $232,908,670 (the "Phase 2 Increase").

2. The Settling Parties' agreement with respect to the Authority's pro forma revenue requirement under Indiana Code Section 8-1.5-3-8 is reflected by line item in Attachment A attached hereto and incorporated herein by reference.

II. Cost of Service and Rate Design

3. Subject to and without waiving any rights reserved in Paragraph 4 of this Agreement, the Settling Parties acknowledge and agree that rates should be designed in order to allocate the foregoing stipulated revenue requirements between and among Petitioner's existing customer classes in a fair and reasonable manner.

4. By entering into this Agreement, neither Settling Party has acquiesced to or waived any position with respect to the appropriate methodology for determining cost-of-service or rate design. The Settling Parties reserve all rights to present evidence and advocate positions with respect to cost-of-service and rate design in this and all other proceedings, including future proceedings involving the Authority.

III. Debt Issuances

5. As described in its testimony in this proceeding, Petitioner plans to issue new debt on or about January 1, 2014 (the "Phase 1 Debt Issuance") and on or about October 1, 2014 (the "Phase 2 Debt Issuance"). Petitioner will file a true-up report and revised rate schedules within 30 days of each issuance that provides details of that issuance. The Settling Parties agree that for purposes of whether revised rates need not be implemented, the OUCC will determine whether a

decrease is immaterial and Petitioner will determine whether an increase is immaterial. The Settling Parties agree that neither party may seek to overturn the other party's determination that a decrease or increase is material. The Commission in its sole discretion may order Petitioner to file revised rates notwithstanding either Settling Party's determination that a prospective change is immaterial.

6. Petitioner agrees to provide a report regarding any long-term debt issuances. The true-up reports to be filed for the Phase 1 Debt Issuance and Phase 2 Debt Issuance satisfy Petitioner's obligation under this Paragraph for those debt issuances. Any reports provided pursuant to Section IV of the Settlement Agreement approved in Cause No. 44053 will satisfy Petitioner's obligation under this Paragraph for debt issuances that are the subject of those reports.

7. If the Phase 2 Debt Issuance is not completed prior to November 1, 2014, Petitioner will use incremental revenues as a result of the Phase 2 Increase authorized pursuant to this Agreement and realized between October 1, 2014, and the date the Phase 2 Debt Issuance is closed as an offset to the funds borrowed in connection with the Phase 2 Debt Issuance. However, this offset will not be required if Petitioner shows it has had insufficient treatment volumes to allow it to bill the revenues approved for the Phase 1 Increase and Phase 2 Increase. The Settling Parties will cooperate in good faith to finalize the methodology that will be used to implement this Paragraph.

IV. Other Stipulations and Conditions

8. To the extent Petitioner decides to update the Marion County Sanitary Sewer Master Plan (the "Master Plan"), it will provide a copy of the updated Master Plan to the OUCC upon completion. If no update to the Master Plan is completed by the end of calendar year 2015,

Petitioner will provide the OUCC an update on the status of any planned updates to the Master Plan.

9. In a time period to be agreed upon by the Settling Parties but no less than 90 days in advance of Petitioner filing its next rate case, Petitioner will collaborate with the OUCC in a meeting or meetings to discuss the presentation of testimony to be included in that case describing savings achieved from the acquisitions and how such savings have affected the proposed rate increase pursuant to Paragraph 8(c) in the Settlement Agreement approved in Cause No. 43936.

10. The Settling Parties agree that the miscellaneous revisions to Petitioner's tariff and terms and conditions for service set forth in Petitioner's Exhibits KLK-1 through 4 and described in the direct testimony of Korlon L. Kilpatrick should be approved by the Commission, except as provided below:

(a) Petitioner will withdraw its proposed changes to Rule 2.2; and

(b) Petitioner will withdraw the proposed additions of the words "roots" and "or inactions" to Rule 22.1.

This agreement shall in no way be construed to limit the jurisdiction of the Commission over Petitioner's terms and conditions for service or constitute a waiver of any agreement by Petitioner with respect to the Commission's jurisdiction over Petitioner's terms and conditions for service. Petitioner reserves the right to apply to the Commission to change its terms and conditions for service and the OUCC reserves the right to challenge any existing rule or proposed changes.

V. Agreement Scope and Approval

11. Neither the making of this Agreement nor any of its provisions shall constitute in any respect an admission by any Settling Party in this or any other litigation or proceeding. Neither the making of this Agreement, nor the provisions thereof, nor the entry by the Commission of a final order approving this Agreement, shall establish any principles or legal precedent applicable to Commission proceedings other than those expressly resolved in this Agreement.

12. This Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by any Settling Party in any other proceeding except as necessary to enforce its terms before the Commission, or any tribunal of competent jurisdiction. This Agreement is solely the result of compromise in the process of negotiating a settlement of the foregoing issues and, except as expressly provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Settling Parties may take with respect to any or all of the issues resolved herein in any future regulatory or other proceedings.

13. The undersigned hereby represent and agree that they have been authorized to execute this Agreement on behalf of their designated clients, and their successors and assigns, which will be bound thereby, subject to the agreement of the Settling Parties on the provisions contained herein and in its attached Exhibits.

14. The communications and discussions during the negotiations and conferences attended only by any or all of the Settling Parties, their attorneys, and their consultants regarding the foregoing issues have been conducted based on the explicit understanding that said communications and discussions are or relate to offers of settlement and therefore are inadmissible before any tribunal, including this Commission. All prior drafts of this Agreement,

including its Exhibits, and any settlement proposals and counterproposals also are or relate to offers of settlement and are privileged.

15. This Agreement is conditioned upon and subject to Commission acceptance and approval of its terms in their entirety, without any change or condition that is unacceptable to any Settling Party.

16. The Settling Parties will work together to prepare agreed upon language regarding the approval of this Agreement for inclusion in any proposed orders submitted in this Cause. Supplemental testimony supporting the Commission's approval of this Agreement will be offered. The Settling Parties will request that the Commission issue a final order incorporating the agreed proposed language of the Settling Parties and accepting and approving the same in accordance with its terms.

17. The Settling Parties shall not individually or jointly appeal or seek rehearing, reconsideration or a stay related to the provisions of any final order entered by the Commission approving this Agreement in its entirety without changes or condition(s) unacceptable to any Settling Party (or related orders to the extent such orders are specifically implementing the provisions hereof) and any of the Settling Parties may individually or collectively support this Agreement in the event of any appeal or a request for rehearing, reconsideration or a stay by any person not a party hereto. However, this Agreement does not preclude any of the Settling Parties from appealing, or seeking rehearing, reconsideration or a stay of any terms of the final order regarding contested matters in this Cause other than the matters stipulated and agreed to herein.

Accepted and Agreed on this 11th day of October, 2013

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

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CWA Authority, Inc.
Comparison of Proposed Pro Forma Revenue Requirements
Phase I

Line No.		A CWA - Case-in-Chief Actual per Books	B CWA - Case-in-Chief Phase I Pro forma Results Based on Current Rates	C OUCC Phase I Pro forma Results Based on Current Rates	D CWA - Rebuttal Phase I Pro forma Results Based on Current Rates	E Settlement Phase I Pro forma Results Based on Current Rates
1	Total Operating Revenues	$156,515,864	$178,993,401	$185,937,464	$173,611,258	$181,477,804
2	Other Operating Expenses	$60,946,622	$64,971,448	$61,500,337	$64,599,525	$61,896,600
3	Depreciation & Amortization	$52,018,798	$55,271,816	$55,271,816	$55,271,816	$55,271,816
4	Taxes	$14,744,866	$15,002,091	$15,627,382	$15,002,091	$15,627,382
5	Total Operating Expenses	$127,710,286	$135,245,355	$132,399,535	$134,873,432	$132,795,798
6	Operating Income	$28,805,578	$43,748,046	$53,537,929	$38,737,826	$48,682,006
7	Debt Service		$101,989,261	$101,989,261	$101,989,261	$101,989,261
8	Other Income, Net		($165,264)	($213,855)	($168,275)	($168,275)
9	Extensions and Replacements		$46,000,000	$46,000,000	$46,000,000	$46,000,000
	Cash Requirement Offsets					
10	Connection Fee		($5,213,545)	($5,213,545)	($5,213,545)	($5,213,545)
11	Depreciation & Amortization		($55,271,816)	($55,271,816)	($55,271,816)	($55,271,816)
12	Pro forma Revenue Requirement Increase Before Write-Off Increase		($43,590,590)	($33,752,116)	($48,597,799)	($38,653,619)
13	Incremental Write-Off		$758,367	$323,720	$655,063	$461,559
14	Pro Forma Revenue Requirement (Increase)/Decrease		($44,348,957)	($34,075,836)	($49,252,862)	($39,115,178)
15	Percentage Increase/(Decrease)		24.78%	18.33%	28.37%	21.55%

CWA Authority, Inc.
Comparison of Proposed Pro Forma Revenue Requirements
Phase II

Line No.		CWA - Case-in-Chief Phase II Pro forma Results Based on Proposed Rates	OUCC Phase II Pro forma Results Based on Proposed Rates	CWA - Rebuttal Phase II Pro forma Results Based on Proposed Rates	Settlement Phase II Pro forma Results Based on Proposed Rates
16	Total Operating Revenues	$223,342,358	$220,013,300	$222,864,120	$220,592,982
17	Other Operating Expenses	$65,729,815	$61,824,057	$65,254,588	$62,358,159
18	Depreciation & Amortization	$55,271,816	$55,271,816	$55,271,816	$55,271,816
19	Taxes	$15,002,091	$15,627,382	$15,002,091	$15,627,382
20	Total Operating Expenses	$136,003,722	$132,723,255	$135,528,495	$133,257,357
21	Operating Income	$87,338,636	$87,290,045	$87,335,625	$87,335,625
22	Debt Service	$114,141,150	$114,141,150	$114,141,150	$114,141,150
23	Other Income, Net	($165,264)	($213,855)	($168,275)	($168,275)
24	Extensions and Replacements	$46,000,000	$46,000,000	$46,000,000	$46,000,000
	Cash Requirement Offsets				
25	Connection Fee	($5,213,545)	($5,213,545)	($5,213,545)	($5,213,545)
26	Depreciation & Amortization	($55,271,816)	($55,271,816)	($55,271,816)	($55,271,816)
27	Pro forma Revenue Requirement Increase Before Write-Off Increase	($12,151,888)	($12,151,888)	($12,151,888)	($12,151,889)
28	Incremental Write-Off	$211,412	$116,551	$163,799	$163,799
29	Pro Forma Revenue Requirement (Increase)/Decrease	($12,363,300)	($12,268,439)	($12,315,687)	($12,315,688)
30	Percentage Increase/(Decrease)	5.54%	5.58%	5.53%	5.58%

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served on the following by delivering a copy thereof by electronic mail on this 11th day of October, 2013 to:

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/s/ Michael E. Allen
An Attorney for Petitioner, CWA Authority, Inc.

FILED
October 30, 2013
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN TWO PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO, AND (2) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE	))))))))	CAUSE NO. 44305

NOTICE OF FILING STIPULATION AND SETTLEMENT AGREEMENT ON ALLOCATION ISSUES

CWA Industrial Group, by counsel, hereby submits the attached *Stipulation and Settlement Agreement on Allocation Issues* dated October 30, 2013, between the Indiana Office of Utility Consumer Counselor and CWA Industrial Group.

Respectfully submitted,

LEWIS & KAPPES, P.C.

/s/ Bette J. Dodd
Bette J. Dodd, Atty No. 4765-49
Joseph P. Rompala, Atty No. 25078-49

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CERTIFICATE OF SERVICE

The undersigned counsel hereby certifies that a copy of the foregoing document was served upon the following via electronic mail, this 30th day of October, 2013:

Michael E. Allen Lauren Toppen LaTona Prentice Jamie Burks CWA AUTHORITY, INC. 2020 North Meridian Street Indianapolis, IN 46202 mallen@citizensenergygroup.com ltoppen@citizensenergygroup.com lprentice@citizensenergygroup.com jburks@citizensenergygroup.com A. David Stippler OFFICE OF THE UTILITY CONSUMER COUNSELOR PNC Center 115 West Washington Street, Suite 1500 South Indianapolis, IN 46204 dstippler@oucc.in.gov dlevay@oucc.in.gov infomgt@oucc.in.gov	Michael B. Cracraft Philip B. McKiernan Steven W. Krohne HACKMAN HULETT & CRACRAFT, LLP 111 Monument Circle, Suite 3500 Indianapolis, IN 46204-2030 mcracraft@hhclaw.com pmckiernan@hhclaw.com skrohne@hhclaw.com Chris W. Cotterill FAEGRE BAKER DANIELS LLP 300 North Meridian Street, Suite 2700 Indianapolis, IN 46204 Chris.cotterill@faegrebd.com

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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER UTILITY SERVICE IN TWO PHASES AND APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO, AND (2) APPROVAL OF CERTAIN CHANGES TO ITS GENERAL TERMS AND CONDITIONS FOR WASTEWATER SERVICE	))))))))	CAUSE NO. 44305

STIPULATION AND SETTLEMENT AGREEMENT ON ALLOCATION ISSUES

The Indiana Office of Utility Consumer Counselor ("OUCC") and the CWA Industrial Group ("Industrial Group", each a "Settling Party" and collectively the "Settling Parties"), solely for the purpose of compromise, hereby stipulate and agree that the following terms and conditions represent a fair, just, and reasonable resolution of the issues set forth in this Stipulation and Settlement Agreement On Allocation Issues ("Agreement"), subject to their incorporation into a final, non-appealable, order of the Indiana Utility Regulatory Commission ("Commission") in Cause No. 44305, without modification or further condition that is unacceptable to either Settling Party.

1. The Settling Parties agree in Cause No. 44305 to allocate Inflow and Infiltration ("I&I") costs to customer classes such that ninety percent (90%) of the costs are allocated to each class based on the class' proportionate share of the total number of customer accounts; and ten percent (10%) of the cost are allocated to each class based on the class' proportionate share of wastewater flow volumes. For purposes of this Agreement, the allocation described above shall be described as the "90/10 I&I allocation".

2. The Settling Parties agree that under the revenue requirement arrived at by the terms of a separate settlement agreement between the OUCC and Petitioner, CWA, the following shall apply to Phase I Rates:

    a. Industrial volumetric rates will increase zero percent (0%);

    b. Industrial surcharge rates will increase or decrease as determined by the application of the 90/10 I&I allocation under the Petitioner's cost of service study;

    c. Non-Industrial volumetric rates will increase approximately twenty-eight percent (28%) or to $171.831 million;

    d. Notwithstanding the agreement between the Settling Parties that Industrial volumetric rates will increase zero percent (0%); the Settling Parties agree that the monthly "Service Charge", the monthly "Minimum Charge", and the monthly "Surveillance Charge" for Industrial customers, which are included in the revenue collected through Industrial volumetric rates in CWA's Cost of Service Study as presented in this Cause, may be modified from the present rates for these charges as a result of the application of the 90/10 I&I allocation, the other terms of this Agreement, and the ultimate revenue requirement established by the final order of the Commission in this Cause. In no event, however, shall any increases in the Service Charge, Minimum Charger and/or Surveillance Charge be greater than necessary to conform to the application of the 90/10 I&I allocation, the terms of this Agreement, and the ultimate revenue requirement determined by the Commission.

3. The Settling Parties agree that under the revenue requirement arrived at by the terms of a separate settlement agreement between the OUCC and Petitioner, CWA, the following shall apply to Phase II Rates:
    a. Total Industrial rates and charges, including surcharge rates, will increase in the aggregate by a total of $1.1 million;
        i. Industrial surcharge rates will increase/decrease as determined by the application of the 90/10 I&I allocation under the Petitioner's cost of service study;
        ii. Industrial volumetric charges, including any monthly "Service Charge", monthly "Minimum Charge" and/or monthly "Surveillance Charge" will increase by the difference between $1.1 million and the Phase II increase for Surcharges.
4. The Settling Parties acknowledge that the foregoing changes to Phase I and Phase II rates are based on the application of the 90/10 I&I allocation to the revenue requirement arrived at by the terms of a separate agreement between the OUCC and Petitioner, CWA. The Settling Parties acknowledge that the Industrial Group has not joined the separate settlement agreement on revenue issues.
5. The Settling Parties agree that the terms of this Agreement in no manner waive or restrict the Industrial Group's ability to challenge CWA's revenue requirement or the terms of the separate settlement agreement on revenue, nor does this Agreement prohibit the Industrial Group from proposing further adjustments to CWA's revenue requirement.
6. To the extent that the Commission's final order in this Cause arrives at a revenue requirement lower than that contained in the separate settlement between the OUCC and

CWA, the Settling Parties agree that the Phase I and Phase II rates and charges as determined in this Agreement shall be adjusted proportionately to account for the lower revenue requirement.

7. The Settling Parties agree that in CWA's next general rate case, there should be further movement towards cost of service rates. Notwithstanding this agreement, the Settling Parties further agree that such agreement shall not preclude either Settling Party from arguing:
    a. What cost of service rates are; or
    b. How much movement should be made towards such rates.
8. The Settling Parties agree that this Agreement is non-precedential in nature, and that in any future general rate case, either Settling Party can re-litigate the appropriate allocation of I&I, and/or propose alternative allocations other than the 90/10 I&I allocation accepted under this Agreement.
9. Neither the making of this Agreement nor any of its provisions shall constitute an admission by either Settling Party in this Cause, or any other proceeding. Neither the making of this Agreement nor any provisions therefore, nor the entry of a final, non-appealable order, by the Commission approving this Agreement shall establish any principles or legal precedent applicable to Commission proceedings except as expressly resolved in this Agreement.
10. This Agreement shall not constitute nor be cited as precedent by any person or deemed an admission by either Settling Party in any other proceeding except to the extent necessary to enforce the terms of this Agreement.

11. This Agreement is solely the result of compromise arrived through the process of negotiation and, except as expressly stated herein, is without prejudice to, and shall not constitute a waiver of, any position that the Settling Parties may take with respect to any or all issues resolved herein in any future proceeding.

12. The undersigned represent and agree that they have authority to execute this Agreement on behalf of their designated clients.

13. The Settling Parties agree that the communications and discussions during the negotiations and conference regarding this Agreement have been conducted with the understanding that such communications and discussion are related to offers of settlement or compromise and are therefore inadmissible before any tribunal except to the extent allowed by the Indiana Rules of Evidence. Prior drafts of this Agreement and any proposals and counterproposals are, or relate to, offers of settlement or compromise and are privileged and confidential.

14. This Agreement is conditioned upon and subject to Commission acceptance and approval of its terms in its entirety, without any change or modification that is unacceptable to any Settling Party.

15. The Settling Parties agree to work together to prepare agreed upon language regarding the approval of this Agreement for inclusion in any proposed order in this Cause and to prepare testimony supporting this Agreement. The Settling Parties shall request the Commission issue a final order incorporating the agreed upon language and to approve the Agreement without modification.

16. The Settling Parties will not individually or jointly appeal or seek rehearing, reconsideration, or a stay related to the provisions of any final order of the Commission approving this Agreement in its entirety without changes or modifications unacceptable to either Settling Party. The Settling Parties agree they will individually and collectively support this Agreement in the event it is contested before the Commission, or in the event any other party to this Cause seeks an appeal, request for rehearing or reconsideration, or a stay of the Agreement. The Settling Parties expressly agree that this Agreement does not preclude either Settling Party from opposing, appealing, or seeking rehearing, reconsideration or a stay of any terms of a final order of the Commission on any issues in this Cause other than the matters stipulated and agreed to in this Agreement.

Accepted and Agreed To this 30th of October, 2013.

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