ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF VAN BUREN WATER, INC. FOR A NEW SCHEDULE OF RATES AND CHARGES FOR WATER SERVICE.	))))	**CAUSE NO. 44566 U** **APPROVED:** AUG 2 6 2015

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
Jeffery A. Earl, Administrative Law Judge

On November 21, 2014, Van Buren Water, Inc. ("Van Buren") filed a Small Utility Rate Application ("Application") under Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On December 4, 2014, Van Buren filed a copy of its Notice of Proposed Increase in Water Rates for Customers of Van Buren Water, Inc. as required by 170 IAC 14-1-2(b). On December 8, 2014, Van Buren filed a copy of its proof of publication.

On December 10, 2014, the Commission's Water and Sewer Division issued a Memorandum finding that the Application was incomplete. On January 12, 2015, Van Buren filed a copy of its proposed Schedule of Water Rates and Charges. On January 12, 2015, the Water and Sewer Division issued a Memorandum finding that the Application was complete.

On April 13, 2015, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor ("OUCC") filed its report, recommending adjustments to the Utility's operating revenues, operation and maintenance ("O&M") expenses, and extensions and replacements ("E&R").

Under Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least 10 customers, a public or municipal corporation, or by the OUCC. The Commission received communications from one customer requesting a public hearing. Based on the lack of sufficient requests for a public hearing, we find there is no need for a hearing in this Cause. Accordingly, no hearing has been held. However, the comments submitted by the customer have been presented by the OUCC in its report and are incorporated in the record of this Cause.

On June 22, 2015, at the request of Van Buren, the OUCC filed Van Buren's reply to the OUCC Report.

Based on the applicable law and the evidence presented, the Commission now finds as follows:

1. **Commission Jurisdiction and Notice.** Van Buren is a public utility as defined in Ind. Code § 8-1-2-1(a) and qualifies for treatment as a small utility under Ind. Code § 8-1-2-61.5. Van Buren published legal notice of the filing of this small utility rate case as required by 170 IAC 14-1-2(b). Therefore, we find that notice of this Cause was given and published as required by law. Further, the Commission finds the Application satisfies all of the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Therefore, the Commission has jurisdiction over Van Buren and the subject matter of this proceeding, and may issue an Order in this Cause based on the information filed as provided by 170 IAC 14-1-6.

2. **Van Buren's Characteristics.** Van Buren is an Indiana not-for-profit public utility that provides water utility service to approximately 2,365 customers in rural areas of Monroe and Greene Counties, Indiana. Van Buren purchases all of its treated water from the City of Bloomington and provides water to customers in Stanford, Kirksville, Van Buren Township, and Indian Creek Township on a retail basis.

3. **Test Period.** The test period selected for determining Van Buren's revenues and expenses reasonably incurred in providing water utility service to its customers includes the 12 months ending December 31, 2013. With adjustments for changes that are fixed, known, and measurable, the Commission finds this test period is sufficiently representative of Van Buren's normal operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** Most recently, the Commission authorized Van Buren to increase its rates across-the-board by 15.86% resulting in an increase in revenues of $86,192 in its March 2, 2011 Order in Cause No. 43948U. In this case, Van Buren seeks an across-the-board rate increase of 30.96%, totaling $866,280, to generate an additional $204,884 in revenues for higher operating expenses and necessary capital improvements.

In its Application, Van Buren proposed a $68 increase to operating revenues based on an estimated three new customers. Van Buren proposed to increase the following expenses: (1) Salaries & Wages ($1,283) and associated Payroll Taxes ($98); (2) Treatment Plant Maintenance ($1,836); and Purchased Water ($29), Purchased Power ($1), and Miscellaneous Expense (Postage) ($1) based on the estimated three new customers. In addition, Van Buren proposed a five-year capital improvement program ("CIP") at a cost of $1,936,875 from 2015-2019. Van Buren calculated its annual E&R revenue requirement of $327,375 by subtracting $300,000 cash on hand from the $1,936,875 CIP cost, resulting in a proposed E&R budget of $1,636,875 amortized over five years.

5. **OUCC Report.** The OUCC's Report was prepared by Richard Corey, Edward Kaufman, and James Parks. In response to the Application, the OUCC recommended an overall 18.32% rate increase or $120,308 net revenue increase. The reduction in the proposed rate increase is primarily a result of adjustments to Van Buren's operating revenues, O&M expenses, and E&R.

Specifically, the OUCC proposed the following adjustments to Van Buren's revenue requirement:

A. Revenue Adjustments. The OUCC agreed with Van Buren's methodology in calculating its residential-revenue-normalization adjustment, but disagreed with the number of test-year residential customers used. Based on Van Buren's test-year billing summaries and the OUCC's estimate of 29 new customers, the OUCC proposed a $666 increase to operating revenues.

B. Expense Adjustments. The OUCC accepted all of Van Buren's adjustments except for the following proposed adjustments: a $282 increase to Purchased Water expense; a $14 increase to Miscellaneous Expense (Postage) based on the estimated number of bills in the OUCC's residential-revenue-normalization adjustment; an $887 decrease in insurance expense based on lower insurance quotes than the test-year insurance expense; a $7,500 decrease in Board of Director fees based on the elimination of fees paid for absences and multiple meetings held consecutively on the same day; and an $8 increase in the IURC fee based on the use of the correct IURC rate of 1.216923 in effect from July 2014 through June 2015.

C. E&R. The OUCC agreed with the necessity and cost of Van Buren's proposed CIP projects except for the following recommendations:

(1) Tank #2 Replacement. The OUCC recommended that the new tank be amortized over 10 years, instead of five years as proposed by Van Buren, to prevent current ratepayers from paying for a long-lived asset over a short period. This reduces E&R by $55,750 per year.

(2) Elimination of Tank #2 Painting Expense. Because Van Buren will replace Tank #2 in 2019 or 2020, the OUCC sees no need to repaint the tank in 2018. The OUCC recommends that Van Buren seek a credit or modification of its tank maintenance contract to reflect elimination of repainting Tank #2.

(3) Meter Replacement Project. Van Buren proposed to replace 1,200 of its current automated meter reading ("AMR") meters that have a 20-year service life and were installed within the past five to seven and one-half years, amortizing the expenses over five years. The OUCC argues that Van Buren is premature in replacing the meters. Instead, the OUCC proposed that Van Buren implement a systematic replacement program for all 2,400 of its AMR meters, amortizing the expense over 15 years. This proposal results in a $300,000 increase to the project cost to $600,000 but a $20,000 per year reduction in E&R.

(4) Reporting Requirement. The OUCC recommended that Van Buren include the completion status of all projects in its 2015-2019 CIP in its IURC Annual Report.

D. Operational Procedures. The OUCC also recommended that Van Buren implement several operational procedures that may improve Van Buren's overall system. First, the OUCC proposed that Van Buren investigate an on-call rental agreement for a second generator to power the second Booster Station during power failures. Second, to address Van Buren's 17% water loss as of 2013, the OUCC proposed that Van Buren conduct annual top-down water audits using free American Water Works Association ("AWWA") software. Third, the OUCC proposed that Van Buren initiate an asset-management program using the free EPA

Check Up Program for Small Systems ("CUPSS"). Finally, The OUCC recommended that Van Buren consider joining the Indiana Water/Wastewater Agency Response Network ("InWARN") for mutual aid following major emergencies after determining the possible value of membership.

6. Van Buren's Reply. Van Buren agreed with all of the OUCC's adjustments to its operating revenues, O&M expenses, and E&R budget. Van Buren did not specifically address the OUCC's operational recommendations.

7. Commission Discussion and Findings.

A. Rates and Revenue Requirement. Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the adjusted net operating expenses based on the utility's current rates. The adjusted amounts are based on known recurring expenses, updated to include changes that are fixed, known, and measurable, and expected to occur within 12 months of the end of the test year.

The table below shows revenue requirements from Van Buren's Application and the OUCC's proposal, to which Van Buren agreed, with one minor modification. In Schedule 4 of the OUCC's rate schedules, a portion of the $120,308 revenue increase was allocated to late fees, but the OUCC's percent increase calculation did not consider the late fee revenues of $5,513. This omission resulted in a percent increase of 18.32% instead of 18.17% when the late fees are considered. The table below reflects this modification.

REVENUE REQUIREMENTS	Application	OUCC & Petitioner's Reply With Correction	Variance
Operation & Maintenance Expenses	$ 583,217	$ 575,115	$ (8,102)
Taxes Other Than Income	5,878	5,878	-
Debt Service			-
Debt Service Reserve			-
Extensions & Replacements	327,375	251,625	(75,750)
Working Capital			-
Total Revenue Requirements	916,470	832,618	(83,852)
Less: Interest Income	3,203	3,203	-
Net Revenue Requirements	913,267	829,415	(83,852)
Less: Other Income	46,987	46,987	-
Less: Late Payment Charges	5,513	5,513	-
Less: Pro Forma Present Rate Operating Revenues	656,155	656,753	598
Revenue Increase Required Excluding Taxes	204,612	120,162	(84,450)
Multiply By: Gross Revenue Conversion Factor	1.00133	1.001218	(0.00011)
Net Revenue Increase Required	$ 204,884	$ 120,308	$ (84,576)
Recommended Percentage Increase	30.96%	18.17%	-12.80%

Based on the evidence presented, we find that the OUCC's proposed revenue requirement and rate increase, as modified, is reasonable and in the public interest.

B. Specific Findings on OUCC Recommendations.

1. Amortization of Tank #2 Replacement. The OUCC recommends that Van Buren amortize the cost of replacing Tank #2 over 10 years rather than five. The OUCC argues that this change will prevent Van Buren's current ratepayers from overpaying for a long term asset, which the OUCC estimates could last fifty years or more if properly maintained. The recommendation would reduce Van Buren's E&R cost by $55,750 per year. We agree with the OUCC that it is more appropriate to amortize the cost of the Tank #2 replacement over a longer period of time. Not only does this limit the immediate impact on the revenue requirement, it also ensures that future customers who will benefit from the new tank help to pay the cost. Therefore, we approve the OUCC's recommendation.

2. Meter Replacement. Van Buren proposed to replace 1,200 of its current AMR meters at a cost of $300,000 amortized over five years. The OUCC argues that this plan could result in the premature replacement of meters because AMR meters have a 20-year service life, and the meters in question were installed within the past five to seven and one-half years. Instead, the OUCC recommends that Van Buren implement a meter-replacement plan for all of its 2,400 meters. Specifically, the OUCC recommends that Van Buren purchase a sufficient quantity of meters to obtain quantity-discount pricing and establish a working inventory of meters for new connections and to replace defective meters. Van Buren should then establish a systematic replacement program of AMR meters over a longer time period of at least 15 years.

The OUCC's proposal would increase the cost of the program to $600,000, but the OUCC recommends that the cost be amortized over 15 years—this results in a $20,000 reduction to Van Buren's annual E&R cost. We agree that Van Buren should not needlessly replace meters that are within their service life and still functioning properly. The OUCC's recommendation allows Van Buren to maintain a sufficient inventory of new meters for new connections and replacements. The recommendation also limits the immediate impact on Van Buren's revenue requirement. Therefore, we approve the OUCC's recommendation.

3. Tank Painting. Because Van Buren will be replacing Tank #2 in 2019 or 2020, the OUCC argues that there is no need to repaint it in 2018. Van Buren now contracts with Utility Services Co., Inc. for tank maintenance and, per the OUCC, should seek a credit or modification to that contract to reflect elimination of the need to paint Tank #2. Van Buren agreed to the OUCC's recommendation. Therefore, we approve the OUCC's recommendation.

4. Reporting Requirement. The OUCC recommends that through 2020 Van Buren include in its IURC Annual Report the completion status of all projects included in its 2015-2019 capital improvement program. Van Buren agreed to the OUCC's recommendation. Therefore, we approve the OUCC's recommendation.

C. Effect on rates. A residential customer using 5,000 gallons per month would experience an increase of $5.10 per month from $28.05 to $33.15.

D. Operational Procedures. The OUCC recommended several operational procedures to improve power supply during an emergency, reduce water loss, improve asset management, and to investigate participation in InWarn. Based on the evidence presented, we find that these recommendations are reasonable. Therefore, Van Buren shall implement these operational procedures and provide a summary of its activities in future annual reports.

E. Alternative Regulatory Program ("ARP"). If Petitioner elects to participate in the Small Utility ARP in accordance with the procedures approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied are $300,790. This amount excludes $274,471 approved for purchased water. Taxes Other Than Income of $5,878 and E&R of $251,625 are also eligible expenses to which the Annual Cost Index will be applied. All other components of Petitioner's revenue requirement will remain unchanged.

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

1. Consistent with the findings above, Van Buren is authorized to increase its monthly recurring rates and charges by 18.17% for an annual net revenue increase of $120,308 annually, so as to produce net annual revenues of $829,561.

2. Van Buren shall file with the Water and Sewer Division of the Commission its new schedules of rates and charges that place into effect the rate increase authorized herein. Upon approval by the Water and Sewer Division, Van Buren's revised rate schedules shall immediately take effect and cancel all of Van Buren's previously approved schedules of rates and charges.

3. Van Buren shall provide a summary of its activities regarding the OUCC's recommended operational procedures and the completion status of the projects in its 2015-2019 CIP in future IURC Annual Reports.

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

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

APPROVED: AUG 2 6 2015

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

Brenda A. Howe
Secretary to the Commission