

**ORIGINAL**



**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**PETITION OF INDIANA WATER )  
SERVICE, INC. FOR APPROVAL OF (A) A )  
DISTRIBUTION SYSTEM IMPROVEMENT )  
CHARGE (“DSIC”) PURSUANT TO IND. )  
CODE CHAP. 8-1-31; (B) A NEW RATE )  
SCHEDULE REFLECTING THE DSIC; )  
AND (C) INCLUSION OF THE COST OF )  
ELIGIBLE DISTRIBUTION SYSTEM )  
IMPROVEMENTS IN ITS DSIC )**

**CAUSE NO. 42743 DSIC 2**

**APPROVED**

**MAY 28 2014**

**ORDER OF THE COMMISSION**

**Presiding Officers:**

**Carol A. Stephan, Commission Chair**

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

On March 28, 2014, Indiana Water Service, Inc. (“Petitioner” or “IWSI”) prefiled with the Indiana Utility Regulatory Commission (“Commission”) its Petition and supporting testimony of Dimitry I. Neyzelman and Bruce T. Haas and exhibits for approval of a new distribution system improvement charge (“DSIC”) pursuant to Indiana Code ch. 8-1-31. Petitioner’s proposed DSIC reflects costs incurred to make certain improvements to its water distribution system. On April 28, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed pursuant to Indiana Code § 8-1-31-9 and 170 IAC 6-1.1-5(a) the testimony of Richard J. Corey, a utility analyst. On April 29, 2014, Petitioner prefiled the rebuttal testimony of Mr. Neyzelman.

Pursuant to notice given as provided by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public evidentiary hearing was held in this Cause on May 12, 2014 at 9:30 a.m. in Room 224, PNC Center, Indianapolis, Indiana. At the hearing, the prefiled evidence of Petitioner and the OUCC was offered and admitted into the record of this proceeding without objection. No members of the public appeared or participated in the evidentiary hearing.

Having considered the evidence and being duly advised, the Commission now finds:

**1. Notice and Jurisdiction.** Due, legal and timely notice of the public hearing in this Cause were given and published as required by law. Petitioner is a “public utility” within the meaning of that term in Indiana Code § 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Pursuant to Indiana Code ch. 8-1-31, the Commission has authority to review a utility’s DSIC

request. This Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

**2. Petitioner's Characteristics.** Petitioner is a wholly-owned subsidiary of Utilities, Inc., which owns over 70 systems providing utility service to approximately 266,000 customers in 15 states. Petitioner owns, operates, manages and controls plant and equipment that are used and useful in the provision of water services in Lake County, Indiana. Petitioner currently serves approximately 1,650 water customers.

**3. Petitioner's Direct Evidence.** Mr. Neyzelman, Manager, Regulatory Accounting for Utilities, Inc., testified in support of Petitioner's proposed DSIC. He explained how the proposed DSIC will operate and described the improvements Petitioner proposed to include in its DSIC. He testified that the improvements included with this DSIC filing include non-revenue producing projects placed in service between July 1, 2011 and December 31, 2013 that were not included in Petitioner's last rate case, Cause No. 44097. He provided rate schedules and a proposed tariff sheet implementing Petitioner's proposed DSIC rate of \$0.27 per thousand gallons. He stated that this rate reflects the 5% cap on DSIC charges.

Mr. Haas, Vice President of Operations for the Midwest Region of Utilities, Inc., supported the various projects included in the proposed DSIC. He sponsored Petitioner's Exhibit BTH-1, which provides project information, including project type, work order number, date placed in service, account number and total cost incurred. He explained that none of the project investments have been included in rate base in prior rate cases. He explained that the projects included in this Cause are either replacement or reinforcement infrastructure and described the general nature of the types of work included. Mr. Haas also provided detailed information regarding Petitioner's automated meter reading ("AMR") project, which involved the replacement of nearly 1,710 meters within Petitioner's system. He stated that the AMR project will provide improved customer service by allowing for accurate and timely meter reads and billings each month. The AMR project will also allow Petitioner to alert customers of high water consumptions (indicating potential leaks) at the time readings are taken. Mr. Haas stated that all of the work identified on Petitioner's Exhibit BTH-1 corresponds to items eligible for inclusion in Petitioner's proposed DSIC rate.

**4. OUC's Report.** Mr. Corey testified that based on the information received from Petitioner, he believed that Petitioner has adequately supported the additions that are the subject of this filing. He explained that Petitioner calculations resulted in total DSIC revenues of \$89,862, but since DSIC revenues cannot exceed 5% of the authorized revenues granted in the last rate case, Petitioner reduced its total DSIC Revenues by \$55,831 to \$34,031. He stated that the \$34,031 represents 5% of the base revenues of \$680,618 authorized in Petitioner's last rate case, Cause No. 44097.

Mr. Corey identified two concerns regarding Petitioner's proposed DSIC calculation. First, he explained that Petitioner had agreed in its last rate case to a weighted cost of capital of 8.2099% and a federal income tax rate of 15%, but in calculating the revenue conversion

factor in this Cause, Petitioner used a federal income tax rate of 34% instead of 15%. This in turn caused Petitioner's pre-tax rate of return on net DSIC additions to be overstated. Second, Mr. Corey disagreed with Petitioner's proposal to include in its DSIC the cost of replacing meters to the extent it included the cost of replacing meters less than ten years old. Mr. Corey argued it is not appropriate to recover in a DSIC the cost of replacing meters that were replaced before the end of their useful life. He therefore excluded from his calculation of DSIC the cost of replacing such meters.

Mr. Corey concluded that the two concerns identified in his testimony ultimately did not affect the DSIC factor to be approved in this Cause because the resulting DSIC revenues indicated by these changes are still higher than the 5% cap of base revenues approved in Cause No. 44097. He therefore recommended that the Commission approve Petitioner's request for a DSIC of \$0.27 per thousand gallons of water. He also emphasized that Petitioner should file a reconciliation pursuant to 170 IAC 6-1.1-8.

**5. Petitioner's Rebuttal.** Mr. Neyzelman testified that he accepted Mr. Corey's use of a 15% federal income tax rate instead of the 34% used in Petitioner's original calculation. He did not agree with Mr. Corey's arguments regarding the appropriateness of including meters less than ten years old in the DSIC calculation. However, because the resulting DSIC factor is the same under either approach, Mr. Neyzelman stated this disagreement is moot for purposes of this proceeding. He therefore did not believe it was necessary for the Commission to expressly address the treatment of those meters at this time.

**6. Commission Discussion and Findings.**

A. DSIC Requirements. Indiana Code ch. 8-1-31 authorizes the Commission to approve a DSIC in order to allow a water utility to adjust its basic rates and charges to recover a pre-tax return and depreciation expense on eligible distribution system improvements. Indiana Code § 8-1-31-5 defines eligible distribution system improvements as new, used and useful water utility plant projects that:

- (a) do not increase revenues by connecting the distribution system to new customers;
- (b) are in service; and
- (c) were not included in the public utility's rate base in its most recent general rate case.

Under Indiana Code § 8-1-31-6, the rate of return allowed on eligible distribution system improvements is equal to the public utility's weighted cost of capital. Unless the Commission finds that such determination is no longer representative of current conditions, Indiana Code § 8-1-31-12 provides that the cost of common equity to be used in determining the weighted cost of capital shall be the most recent determination by the Commission in a general rate proceeding of the public utility.

B. Calculation of the DSIC. Petitioner's proposed DSIC is \$0.27 per thousand gallons of water. The total cost of the requested DSIC Improvements is \$805,692, and when retirements totaling \$123,243 are included the net investor-supplied DSIC additions

total \$682,449. In this Cause, Petitioner reduced its total DSIC-2 revenues of \$89,862 by \$55,831 to \$34,031, because the total calculated DSIC revenues for the relevant period would have exceeded 5% of the authorized revenues granted in Petitioner's last rate case. The total net DSIC revenues allowed of \$34,031, spread across Petitioner's anticipated water sales of 123,819,840 gallons, result in a DSIC-2 charge of \$0.27 per thousand gallons. As noted by Petitioner, there is no reconciliation of the prior DSIC because Petitioner has had a general rate case since its last DSIC filing.

The evidence shows that all of the undisputed DSIC Improvements are in service, will not result in the addition of new customers to Petitioner's system and fall into NARUC Accounts 331 and 335. As such, they are eligible for inclusion in a DSIC. Petitioner has met its maximum statutorily authorized DSIC with projects the OUCG acknowledges are DSIC eligible. However, the OUCG takes issue with the \$526,608 of rate additions for new meters. Mr. Corey testified that Petitioner "replaced many of the meters not because the meters had exceeded their useful life, but instead to install AMR meters and registers." In rebuttal, Mr. Neyzelman testified that he disagreed with Mr. Corey's arguments regarding the inclusion of meters less than ten years old in the DSIC calculation. Furthermore, Mr. Neyzelman testified that since the DSIC factor is the same under either approach, it is unnecessary for the Commission to address the treatment of those meters at this time.

While we agree with Mr. Neyzelman that the inclusion of meters less than ten years old has no impact on the DSIC calculation in this proceeding, we think this is an appropriate time to remind Petitioner of this Commission's prior ruling on this issue. In Cause No. 42351 DSIC 8, we noted that the recovery of meters less than ten years old should be done outside of the DSIC process so that the DSIC process could "continue to focus on replacement of aging infrastructure." *Indiana-American Water Co., Inc.*, Cause No. 42351 DSIC 8, 2013 Ind. PUC LEXIS 373, at \*40 (IURC, December 18, 2013). Thus, Petitioner should consider a different mechanism for recovering the cost of meters less than ten years old.

C. Reconciliation of Petitioner's DSIC. Petitioner should be prepared to reconcile the DSIC approved by this Order in the manner prescribed by Indiana Code § 8-1-31-14 and 170 IAC 6-1.1-8. Under Indiana Code § 8-1-31-14, at the end of each 12-month period a DSIC is in effect, the difference between the revenues produced by the DSIC and the expenses and the pre-tax reflected in it should be reconciled. This difference should be refunded or recovered, as the case may be, through adjustment of the DSIC.

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

1. A DSIC of \$0.27 per thousand gallons of water is approved for Indiana Water Service, Inc.
2. Prior to placing into effect the above-authorized DSIC, Petitioner shall file with the Water/Sewer Division of the Commission an appendix to its schedule of rates and charges for water service in the form of Petitioner's Exhibit DIN-1.

3. The above-authorized DSIC shall be subject to reconciliation as described in Paragraph 6(C) above.

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

**STEPHAN, MAYS, WEBER, AND ZIEGNER CONCUR:**

**APPROVED:      MAY 28 2014**

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

A handwritten signature in cursive script that reads "Brenda A. Howe". The signature is written in black ink and is positioned above the printed name and title.

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