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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
CATARACT LAKE WATER CORPORATION) CAUSE NO. 43742 U
FOR A NEW SCHEDULE OF RATES AND)
CHARGES) APPROVED: DEC 22 2009

BY THE COMMISSION:

Jeffrey L. Golc, Commissioner
DeAnna L. Brunner, Administrative Law Judge

On July 21, 2009, the Cataract Lake Water Corporation ("Cataract Lake" or "Applicant") filed its Application with the Indiana Utility Regulatory Commission ("Commission") for a small utility rate change (the "Application") pursuant to the provisions of Indiana Code § 8-1-2-61.5 and 170 IAC 14-1. On August 8, 2009, the Commission received the "Verified Statement of Federal Indebtedness" from Rural Development. On August 14th, the Applicant filed its proof of publication, legal notice, and copy of written customer notice. On August 18, 2009, the Commission issued a Memorandum stating the Application was administratively complete. Cataract Lake subsequently filed on October 21, 2009 an amended customer notice which corrected a deficiency identified in the first notice.

On October 19, 2009, the OUCC filed a report with the Commission (the "Report") as required by 170 IAC 14-1-4. The Report discussed and made several recommendations to the Commission concerning the relief requested by Cataract Lake. On October 20, 2009, the OUCC also filed Work Papers. Applicant did not file a written response to the Report, but on November 12, 2009, staff received a voice mail from Applicant's attorney stating that Applicant had no objections to the OUCC's report.

Pursuant to Indiana Code § 8-1-2-61.5, a formal public evidentiary hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least ten customers, a public or municipal corporation, or by the OUCC. No requests for hearing were made, and therefore, a formal public evidentiary hearing was not held.

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

- 1. Statutory Notice and Commission Jurisdiction.** The information presented by Cataract Lake in this Cause establishes that legal notice of the Application filing was published in accordance with law and that Cataract Lake gave proper notice to its customers of the nature and extent of the relief it is seeking. Therefore, due legal and timely notice of the matters in this proceeding was given and published as required by law. Cataract Lake is an Indiana not-for-profit utility. Accordingly, the provisions of 170 IAC 14-1-2 are applicable to the Application, and Cataract Lake is entitled to request an increase in its rates and charges for service pursuant to Indiana Code § 8-1-2-61.5 and 170 IAC 14-1.

The Application satisfies the requirements of Indiana Code § 8-1-2-61.5 and 170 IAC 14-1. The Commission, therefore, has jurisdiction over the parties and the subject matter of this Cause.

2. **Applicant's Characteristics.** Cataract Lake is an Indiana not-for-profit utility providing water service to customers in southern Putnam County, northern Owen County, and eastern Clay County. According to the 2008 Annual Report filed with the Commission, Cataract Lake serves approximately 1,202 residential customers and 10 commercial customers. Applicant owns and operates a water treatment plant with capacity of 466,000 gallons per day and utilizes approximately 75 miles of water lines and mains. Cataract Lake maintains 50,000 gallon and 300,000 gallon storage towers and has more than 100 hydrants in service.

3. **Existing Rates, Test Year, and Relief Requested.** Cataract Lake's existing rates and charges were established on August 30, 2006 in Cause No. 43016-U. The test period selected for determining Cataract Lake's revenues and expenses reasonably incurred in providing water utility service to its customers included the twelve (12) months ending December 31, 2008. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test period is sufficiently representative of Cataract Lake's normal operations to provide reliable data for ratemaking purposes. Cataract Lake requested a 24% across-the-board rate increase pursuant to Indiana Code § 8-1-2-61.5. Cataract Lake's proposed rate adjustment would increase its pro forma revenue by \$90,566.

4. **Operating Revenue.** Cataract Lake proposed that its pro forma present rate annual operating revenue subject to increase be \$376,599. The OUCC proposed a pro forma present rate revenue subject to increase of \$381,877. The difference of \$5,278 represents the revenue from forfeited discounts, which the OUCC considers to be subject to increase. Applicant agreed that \$381,877 is appropriate for pro forma present rate revenues.

5. **Revenue Requirements.** As noted above, Cataract Lake requested a \$90,566 or 24.0% across-the-board increase in rates. The OUCC recommended that Applicant's rates should be increased by 21.39% or \$81,676. The table on the following page provides a comparison of the two parties' proposed revenue requirements.

Comparison of Petitioner's and OUCC's Revenue Requirements

	Per Petitioner (A)	Per OUCC (B)	Difference More/(Less) (B)-(A)
<u>Revenue Requirements:</u>			
Extensions and Replacements	\$ 23,589	\$ 23,589	\$ -
Operation & Maintenance Exp.	296,462	285,115	(11,347)
Taxes Other Than Income	11,664	11,504	(160)
Working Capital	-	-	-
Debt Service	148,465	152,211	3,746
Debt Service Reserve	31,035	29,819	(1,216)
Total Revenue Requirements	511,215	502,237	(8,978)
Less: Interest Income	3,332	3,332	-
Merchandising, Jobbing & Contracting	24,458	24,458	-
Other Revenues	16,260	10,982	(5,278)
	-	-	-
Net Revenue Requirements	467,165	463,465	(3,700)
Less: Revenues at Current Rates	376,599	381,877	5,278
	-	-	-
Revenue Increase Required	90,566	81,588	(8,978)
Add: Additional IURC Fee	-	88	88
Recommended Increase	\$ 90,566	\$ 81,676	\$ (8,890)
Recommended Percentage Increase	24.00%	21.39%	-2.61%

A. Operations and Maintenance. The OUCC accepted Cataract Lake's adjustments for payroll expense, FEMA reimbursement, purchased power, engineering fees, well cleaning, rate case expense, audit expense, and FICA and Medicare tax. The OUCC made several adjustments to Applicant's test year O&M expenses. The OUCC recommended insurance expenses be increased by \$6,163 to reflect the cost of six (6) months of health/life insurance payments. The OUCC also recommended disapproval of party expenses of \$682. Cataract Lake agreed with the OUCC's recommendation. As a result, the OUCC and the Applicant agreed that \$285,115 in pro forma O&M expenses is appropriate. The Commission finds that the O&M expenses are reasonable and supported by the evidence.

B. Extensions and Replacements. The Applicant and the OUCC agreed that \$23,589 should be annually allotted for capital improvements. The Commission finds that an annual amount of \$23,589 for the capital improvement plan is reasonable and supported by the evidence detailed in the capital improvement plan.

C. Taxes Other Than Income. The Applicant proposed \$11,664 to account for pro forma present rate taxes other than income. The OUCC proposed that \$11,504 is necessary to meet Applicant's annual requirements. The Commission agrees with the accuracy of the OUCC's calculation and finds that \$11,504 is appropriate.

D. Debt Service. The Applicant proposed \$148,465 for debt service based on an average of years 2010, 2011, and 2012. The OUCC proposed \$152,211 based on an average of years 2011, 2012, and 2013, as they believe these three years are more representative of the Petitioner's ongoing requirements. The Commission believes the OUCC's calculation for debt service is more representative of Cataract Lake's actual cash requirements and finds that \$152,211 is appropriate.

E. Debt Service Reserve. The Applicant proposed \$31,035 for Debt Service Reserve. The OUCC proposed \$29,819, which includes interest income that will be earned. The Commission agrees with the OUCC's calculation because the Commission recognizes that Cataract Lake will earn interest income on the amount set aside for debt service reserve. Therefore, the Commission finds that \$29,819 is appropriate.

6. OUCC Recommendations. In its Report, the OUCC recommended that the Applicant should bid an alternative 100,000 gallon tank for comparative and informational purposes. The OUCC also recommended that the Applicant consider instituting a system development charge from new customers to help pay for improvements in the event of a large water user coming on line or as a buy-in method to existing infrastructure equity.

7. Commission Discussion and Findings. Cataract Lake, in its Application, proposed to construct a 150,000 gallon storage tank. The OUCC, however, recommended that Cataract Lake consider the installation of a 100,000 gallon storage tank and issue a bid for purposes of a cost/benefit comparison. While constructing a 100,000 gallon storage tank may cost less, a 150,000 gallon storage tank may better serve the Applicant's customers due to a reduced incremental cost for storage and accelerated growth anticipated at the Interstate 70 and State Road 243 interchange. After setting aside low cost savings, the key consideration in a cost-benefit analysis will depend on how accurate Cataract Lake's growth projections are for the interchange area. Based on the evidence presented, and as the Applicant has agreed to bid on an alternative 100,000 gallon storage tank, the Commission finds that Cataract Lake shall issue a bid request for the 150,000 gallon storage tank, as well as an alternative 100,000 gallon tank for comparative and informational purposes.

As noted above, the OUCC also recommended that Cataract Lake consider instituting a system development charge from new customers to help pay for improvements in the event of a large water user coming on line or as a buy-in method to existing infrastructure equity. The Commission has previously approved system development charges as a means of placing the costs required for service on those new customers requesting the service rather than imposing the costs of serving new customers on the utility's existing customers. Consequently, the Commission encourages Applicant to further consider the OUCC's recommendation of instituting a system development charge.

Additionally, although the OUCC's Report did not specifically comment on the Applicant's request for authorization to issue a \$900,000 long term note, the calculation of Debt Service and Debt Service Reserve revenue requirements included the proposed debts. The Commission finds the proposed long term debt is necessary to fund Cataract Lake's capital improvements, and therefore, authorizes the issuance of \$900,000 proposed debt, subject to true-up. However, the Commission requires that Cataract Lake first seek a loan from the SRF loan program or the Rural Development Administration. If Petitioner is unable to secure one of these loans, it should attempt to obtain a loan from the next lowest cost provider.

Based on the evidence presented, the Commission finds that the rates proposed by Cataract Lake, as adjusted by the OUCC, are just and reasonable. A summary of the above findings, including other revenue requirements not in dispute in this Cause, is set forth in the following table:

<u>Revenue Requirements:</u>	
Extensions and Replacements	\$ 23,589
Operation & Maintenance Exp.	285,115
Taxes Other Than Income	11,504
Working Capital	-
Debt Service	152,211
Debt Service Reserve	29,819
Total Revenue Requirements	<u>502,237</u>
Less: Interest Income	3,332
Merchandising, Jobbing & Contracting	24,458
Other Revenues	<u>10,982</u>
Net Revenue Requirements	463,465
Less: Revenues at Current Rates	<u>381,877</u>
Revenue Increase Required	81,588
Add: Additional IURC Fee	<u>88</u>
Recommended Increase	<u>\$ 81,676</u>
Recommended Percentage Increase	<u>21.39%</u>

Based on the data above, the monthly bill of a residential customer, using 5,000 gallons, will increase from \$30.30 to \$36.78.

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

1. Consistent with the findings above, Cataract Lake is hereby authorized to increase its rates and charges by 21.39% across-the-board, to produce additional revenue of \$81,676.
2. Cataract Lake shall bid a 150,000 gallon storage and an alternative 100,000 gallon storage tank for comparative and informational purposes. Cataract Lake shall provide the Commission with a summary of the cost-benefit analysis that includes their final decision

concerning the size of the storage tank to be constructed to the Commission when they file the true-up report required in Ordering Paragraph No. 4.

3. Cataract Lake shall consider instituting a new customer system development charge to help pay for improvements in the event of a large water user coming on line or as a buy-in method to existing infrastructure equity.

4. Cataract Lake is authorized to issue up to \$900,000 in debt, as proposed in the Application. The Commission requires that Cataract Lake first seek a loan from the SRF loan program or the Rural Development Administration. If Petitioner is unable to secure one of these loans, it should attempt to obtain a loan from the next lowest cost provider. Cataract Lake shall provide the terms of the loan to the Commission prior to loan closing.

Cataract Lake shall file a true-up report with the Commission, with a copy to the OUCC, which reflects the actual terms of the borrowing within thirty (30) days from the date of loan closing. The true-up report shall state the actual interest rate and amount borrowed, along with an updated amortization schedule.

5. Prior to placing into effect the rates and charges approved herein, Cataract Lake shall file with the Commission's Water/Sewer Division a schedule of rates and charges in a manner consistent with this Order and the Commission's rules for filing such schedules. Once the Commission's Water/Sewer Division approves the rate schedule, it shall cancel all prior rates and charges.

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

HARDY, GOLC, LANDIS, AND ZIEGNER CONCUR; ATTERHOLT ABSENT:

APPROVED: DEC 22 2009

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



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