ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

NORTHERN RICHLAND SEWER CORPORATION APPLICATION FOR SMALL UTILITY RATE CHANGE.	)))	**CAUSE NO. 43791 U**
		APPROVED: JUL 28 2010

BY THE COMMISSION:
Aaron A. Schmoll, Administrative Law Judge

On September 23, 2009, Northern Richland Sewer Corporation ("Northern Richland" or "Applicant") filed its Application with the Indiana Utility Regulatory Commission ("Commission") for a small utility rate change ("Application") pursuant to the provisions of Indiana Code § 8-1-2-61.5 and 170 IAC 14-1. On January 21, 2010, the Applicant filed its authorization from Northern Richland's governing body, proposed public written notice, proof of publication, copy of written customer notice, and verified state as to whether it has federal indebtedness. On January 22, 2010, the Water/Sewer Division of the Commission issued a Memorandum stating the Application was complete.

On April 22, 2010, the Indiana Office of Utility Consumer Counselor ("OUCC") filed a report with the Commission (the "Report") as required by 170 IAC 14-1-4. On May 18, 2010, the OUCC advised the Commission that the OUCC and the Applicant had agreed on a revenue requirement and the OUCC would file a supplement to its Report addressing those changes. On May 28, 2010, the OUCC filed its Supplemental Report with the Commission.

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. No request for a hearing was made, so 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 the Applicant in this Cause establishes that legal notice of the Application filing was published in accordance with the law and the Applicant 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. Northern Richland is an Indiana not-for-profit corporation serving fewer than 5,000 customers. Accordingly, the provisions of 170 IAC 14-1-2 are applicable to the Application, and Northern Richland is entitled to request an increase in its rates and charges for service pursuant to Ind. 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.** Formed on January 1, 1972, the Northern Richland Sewer Corporation operates a sewer utility providing service to approximately 240 customers in the rural areas in Richland Township, Monroe County, Indiana. The Northern Richland Sewer

Corporation transmits the wastewater it collects to the treatment system operated by the City of Ellettsville.

3. **Existing Rates and Relief Requested.** Northern Richland's existing rates and charges were established on May 3, 1972 in Cause No. 32784. Northern Richland has requested a 21.16% across-the-board rate increase pursuant to Indiana Code § 8-1-2-61.5. Northern Richland's proposed rate adjustment would increase its *pro forma* revenue by $29,826.

4. **Test Year Period.** The test year period selected for determining Northern Richland's revenues and expenses reasonably incurred in providing wastewater 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 year period is sufficiently representative of Northern Richland's normal operations to provide reliable data for ratemaking purposes.

5. **Revenue Requirement Request.** As noted above, Northern Richland requested a $29,826 or 21.16% across-the-board increase in rates, and approval of a $900 System Development Charge ("SDC"). The OUCC recommended that Applicant's rates be increased by $26,622 or 19.40%, and recommended approval of the proposed SDC.

6. **Test Year Accounting Adjustments.** The OUCC, in its Supplemental Report, proposed the following accounting adjustments based on its review of Northern Richland's books and records.

a. Test year Residential Customer Growth. The OUCC proposed an adjustment to the Applicant's customer growth calculation. The Applicant's net annual residential customer billings are a negative thirty-five (35). Multiplying the 35 annual customer billings for the test year times the average monthly bill of $40.24 (1,441,100 gallons divided by 2,915 annual residential customers), yields a revenue adjustment of negative $1,408. The Commission finds that adjustment appropriate.

b. Test Year Industrial Revenue Decrease. The OUCC proposed an industrial customer revenue adjustment. This adjustment is meant to adjust for the decreased billing for Northern Richland's one industrial customer – Cook Inc. ("Cook") The OUCC compared monthly (January through December) volume usages for 2008 and 2009. The various monthly decreases or increases were then multiplied by cost per thousand gallons. These calculations result in an operating revenue decrease of $2,194 for Cook. The Commission finds that adjustment appropriate.

c. Waste Treatment Expense. The Applicant proposed a wastewater treatment expense adjustment to *pro forma* operating expenses of $11,497. The OUCC proposed a wastewater treatment expense adjustment of $11,614 due to a postage increase that adjusts Applicant's pro forma expense by $117. The Commission finds that adjustment appropriate.

d. Industrial Customer Volume Adjustment. The OUCC proposed an adjustment for industrial customer volume to be consistent with the reduction in test year industrial revenue discussed above. The Applicant has reduced revenues from its one industrial customer, Cook. The Applicant also has reduced expense associated with Cook's wastewater invoicing from Ellettsville Utilities. The OUCC compared annual monthly invoices (January through December) for 2008 and 2009 for Cook, which revealed that the Applicant's wastewater treatment invoices for Cook have decreased by $1,713 for the comparative periods. The Commission finds that adjustment appropriate.

e. Rate Case Expense. The Applicant proposed a rate case expense of $16,500 to be amortized over three (3) years for an annual operating expense of $5,500. The OUCC proposed total rate case expense of $15,000 amortized over three (3) years for an annual operating expense of $5,000. The Applicant's rate case expense included an IURC Fee of $500 and an OUCC Fees of $1,000. As the Applicant pays the annual IURC fee, separate expenses are not charged pursuant to Ind. Code Section 8-1-2-70. Therefore, the OUCC reduced the Applicant's proposed rate case expense by a total of $1,500. The Commission finds that adjustment appropriate.

f. Maintenance Expense. The Applicant and the OUCC discussed the necessity for increased maintenance of the utility's collection lines. Based upon this discussion, the parties mutually agreed to increase system maintenance to $900 per month from the Petitioner's proposed $700 per month in order to allow the utility to have more resources to properly maintain its system. This results in an annual increase of $2,400. The Commission finds that adjustment appropriate.

g. Rent Expense. The Applicant proposed a *pro forma* rent expense adjustment of $6,000 to operating expenses. The OUCC proposed a *pro forma* adjustment of $800 to operating expenses, because Applicant misclassified $5,200 rent expense as salaries and wages–officers and directors on its Statement of Revenues, Expenses and Changes in Retained Earnings. The OUCC subtracted test year rent expense of $5,200 from Applicant's current expense of $6,000 to arrive at the $800 *pro forma* operating expense adjustment. The Commission finds that adjustment appropriate.

h. Depreciation Expense. The Applicant proposed a *pro forma* depreciation expense adjustment of $1,549. The OUCC proposed a *pro forma* depreciation expense adjustment of $1,989, because the composite depreciation rate that Applicant used is for water, not wastewater. The correct composite depreciation rate for a wastewater system without a treatment plant is 2.20%. After substituting the correct composite rate into Applicant's calculation, the *pro forma* depreciation expense is $4,840. Subtracting test year expense of $2,851 results in an adjustment of $1,989. The Commission finds that adjustment appropriate.

7. **Clay Piping.** Utilities with vintage clay piping, such as Northern Richland, are subject to significant inflow and infiltration problems from separated and cracked piping and manhole leaks. The OUCC recommended the Applicant resume line televising and repair specifically with regard to much of the clay piping and report to the Commission the results within six months of the this Order.

Inflow and infiltration problems can be a serious issue for wastewater utilities with older, brittle piping. Here, the OUCC report refers to alleged manhole overflows and excess waste flows during rain events. The Report also notes that the Town of Ellettsville, which supplies water to Applicant's customers, also serves as the customer contact for Applicant's customers with respect to sewer problems, and has responded to such complaints itself. However, we note that despite these issues, Applicant and Ellettsville entered into a wastewater treatment contract that charges Applicant's customers a flat rate based on water usage. In the absence of specific customer complaints or actions by Ellettsville to force Applicant to address any inflow issues, such as by charging for treatment based on metered wastewater volumes, rather than water volumes, and responding to sewer issues directly, rather than referring those customers to Applicant's contact, we find that Applicant shall resume line televising and repair of its clay piping, and file a report to the Commission detailing the work performed, under this Cause, within six months of the effective date of this Order.

8. **Conclusion.** The Commission finds the revenue requirements and net operating income as set forth in the following table should be approved.

Revenue Requirements

Operating Expenses		$ 161,293
Taxes other than Income		193
Depreciation		4,840
Total Revenue Requirements		166,326
Less:	Interest Income	1,225
	Other Income	1,266
Net Revenue Requirements		163,835
Less:	Revenues at current rates subject to increase	137,242
	Other revenues at current rates	-
Net Revenue Increase Required		26,593
Add:	Additional IURC Fee	29
Recommended Increase		$ 26,622
Recommended Percentage Increase		19.40%

Further, the Commission finds that the proposed $900 SDC is hereby approved. SDC funds collected shall be placed in a restricted account and only utilized for capital improvements of its system due to growth.

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

1. Consistent with the above findings, Northern Richland is hereby authorized to increase its rates and charges by $26,622 annually, so as to produce total annual revenue of $163,835, which represents a 19.40% across-the-board increase in its wastewater rates and charges.

2. The requested system development charge of $900 is hereby approved, as set forth in Para. 8.

3. Northern Richland shall resume line televising and repair specifically with regard to its vintage clay piping and file a report of the results, under this Cause, within six months of the effective date of this Order.

4. Prior to placing into effect the rates and charges approved herein, Northern Richland shall file with the Water/Sewer Division of the Commission a schedule of rates and charges in a manner consistent with this order and the Commission's rules for filing such schedules. Upon approval by the Commission's Water/Sewer Division, such schedule shall become effective and cancel all prior rates and charges.

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

HARDY, ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JUL 28 2010

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