

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

COLUMBIA CITY MUNICIPAL ELECTRIC) CAUSE NO. 43832 U
UTILITY APPLICATION FOR SMALL)
UTILITY RATE CHANGE) APPROVED: JUN 30 2010

BY THE COMMISSION:

James D. Atterholt, Commissioner
Aaron A. Schmoll, Administrative Law Judge

On November 25, 2009, Applicant, the municipal electric utility of Columbia City, Indiana (“Columbia City” or “Applicant”), filed with the Indiana Utility Regulatory Commission (“Commission”) its *Application for a Small Utility Rate Change* pursuant to I.C. § 8-1-2-61.5 and 170 I.A.C. 14-1. Columbia City was seeking an increase of 7.48% above current rates.

On February 24, 2010, as required by 170 I.A.C. § 14-1-4(a), the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a report recommending the Commission approve a rate increase of 6.07% above current rates. Applicant filed no reply to the OUCC report.

On May 7, 2010, the Presiding Administrative Law Judge requested that the parties file additional evidence with respect to Applicant’s requested return. On May 13, 2010, Applicant filed supplemental testimony and exhibits. On May 21, 2010, the OUCC filed its supplemental testimony. On May 26, 2010, Applicant filed its response to the OUCC’s supplemental testimony.

Pursuant to I.C. § 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 ten customers, a public or municipal corporation, or by the Public. No customer requests for a hearing have been received by the Commission, and accordingly, no hearing has been held.

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

1. Commission Jurisdiction and Notice. Applicant is a municipal electric utility owned by the City of Columbia City, Indiana. Applicant owns and operates electric facilities for the transmission and distribution of electric demand and energy, and as such is a “municipal utility” within the meaning of the Public Service Commission Act, as amended. Applicant is subject to the jurisdiction of this Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission, therefore, has jurisdiction over the Applicant and the subject matter of this proceeding.

2. Applicant’s Characteristics. Applicant is authorized to and is engaged in the furnishing of electricity to residential, commercial, industrial, and other customers located within its assigned service area. Applicant owns electric transmission and distribution facilities which

are used and useful in providing adequate and reliable service to its approximate 4,610 customers. The City of Columbia City, Indiana is a member of the Indiana Municipal Power Agency (“Agency”) and Applicant purchases all of its power and energy requirements from the Agency pursuant to the terms of a Power Sales Contract. Applicant’s current schedule of rates and charges was placed into effect following the Commission’s approval of the November 19, 1997 Order in Cause No. 40768.

3. Test Period. The test period selected for determining Applicant’s revenues and expenses reasonably incurred in providing electric utility service to its customers includes 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 Applicant’s normal operations to provide reliable data for ratemaking purposes.

4. Operating Revenue. Applicant calculated its pro forma present annual operating revenue to be \$9,732,410, based on an 8.0% Return on Plant. The OUCC, in its Report, stated that 8.0% was too high and recommended a return of 6.0%. This was the only disputed issue in the Application.

Under Indiana Code Section 8-1.5-3-8, the Commission “shall approve rates and charges that are sufficient . . . to include a reasonable return on the utility plant of the municipality if the legislative body so elects.” Here, Applicant’s request for a return of 8.0% was not supported by any evidence. Instead, Applicant stated that the return was necessary to fund its \$1.3 million extensions and replacements program, which we address below. Applicant also stated in its supplemental testimony and supplemental response that Applicant faces more risk than investor-owned utilities with a larger customer base. However, Applicant fails to recognize that its comparison to investor-owned utilities is inappropriate given that Applicant does not have stock and therefore has no equity investors.

Similarly, the OUCC failed to support its recommendation of a 6.0% return. While the OUCC analysis found that 30 year U.S. Treasury yields have averaged 4.63% in 2010, its recommendation increasing the return to 6.0% was not based on evidence, other than Mr. Foster’s opinion that 4.63% was too low. While Mr. Foster discussed the opportunity cost approach in relation to a 1990 Commission memorandum, the opportunity cost approach actually supports a return tied to a treasury rate. Rather than increasing the return to 6.0%, we find Mr. Foster’s concern (that 4.63% represents an interest rate at a cyclical low) supports a position that if Applicant wanted a higher return, it should file a new rate case when the economic situation has improved. Accordingly, we find that 4.63% represents a reasonable return on Applicant’s net plant, which yields a return of \$235,795.

As noted above, Applicant, in support of its requested return, stated that it has a number of capital projects planned to replace existing plant. Under Ind. Code Section 8-1.5-3-8, nothing precludes a municipal utility from recovering depreciation expense and sufficient funds for extensions and replacements. The only caveat is that the “money for making extensions and replacements” may not be already recovered through depreciation. IC 8-1.5-3-8(c)(5). Applicant’s supplemental testimony included a list of capital projects totaling \$1,291,781. We find that this amount shall be amortized over five years, resulting in an adjustment of \$258,356

for extensions and replacements. At the end of the five-year period, Applicant shall file a revised tariff with the Commission removing this expense.

In summary, we find Applicant's pro forma present rate revenue is \$9,722,218, which yields a total pro forma revenue increase of \$668,520. This increase will result in an across-the-board increase of 7.47% in rates.

5. Conclusion. A summary of the above findings, including the non-disputed expense items, are illustrated in the following table.

Revenue Requirements

Operation and maintenance expense	8,522,748
Depreciation	501,834
Extensions and Replacements	258,356
Taxes other than income	121,048
Return on plant	235,795
Payment in Lieu of Taxes	104,900
Less: Interest Income	<u>(22,464)</u>
Revenue requirement	9,722,218
Less: Present Rate Revenues	(9,063,057)
Add: Utility Receipts Tax	<u>9,359</u>
Net Revenue Increase Required	<u>\$ 668,520</u>
Percent Increase Required	<u>7.47%</u>

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

1. Consistent with the findings above, City of Columbia is hereby authorized to increase its rates and charges by \$668,520 annually, so as to produce total annual revenue of \$9,722,218, which represents a 7.47% across-the board increase in its rates and charges.

2. Prior to placing into effect the rates and charges approved herein, Applicant shall file with the Commission's Electricity Division a schedule of rates and charges in a manner consistent with this order and the Commission's rules for filing such schedules. When filed with the Commission, such schedule shall cancel all prior rates and charges.

3. At the conclusion of the five-year amortization period, Applicant shall file with the Commission's Electricity Division a revised schedule of rates and charges removing the amortized extensions and replacements expense.

4. In accordance with Indiana Code 8-1-2-70 and GAO 2009-3, Applicant shall pay the following charge within twenty (20) days from the date of this Order to the Secretary of the

Commission, as well as any additional costs that were or may be incurred in connection with this Cause:

Commission Charges	\$1,000.00
OUCC Charges	<u>\$2,000.00</u>
Total	\$3,000.00

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

HARDY, ATTERHOLT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JUN 30 2010

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


Brenda A. Howe
Secretary to the Commission