

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION )  
OF RHORER, HARRELL & SCHACHT ) CAUSE NO. 43934 U  
ROADS WATER CORPORATION FOR )  
A NEW SCHEDULE OF RATES AND ) APPROVED: MAR 02 2011  
CHARGES )

**BY THE COMMISSION:**  
**Carolene R. Mays, Commissioner**  
**Jeffery A. Earl, Administrative Law Judge**

On August 5, 2010, Rhorer, Harrell & Schacht Roads Water Corporation (“RHSR” or “Petitioner”), filed with the Indiana Utility Regulatory Commission (“Commission”) its Petition for a New Schedule of Rates and Charges pursuant to Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On September 15, 2010, the Commission’s Water and Sewer Division issued a Memorandum stating Petitioner’s application was incomplete. On October 25, 2010, Petitioner filed additional information in support of the Application, including a copy of its notice to customers as required by 170 IAC 14-1-2(b). Also on October 25, 2010, the Commission’s Water and Sewer Division issued a Memorandum stating Petitioner’s application was considered substantially complete.

On November 3, 2010, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report, recommending changes to Petitioner’s revenue and expense calculations. On January 6, 2011, Petitioner filed its response to the OUCC’s report.

Pursuant to 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 ten customers, a public or municipal corporation, or by the Public. No requests for a hearing have been received by the Commission nor has the Commission determined the need for a hearing in this Cause. 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.** The evidence presented establishes that Petitioner published legal notice of the filing of this small utility rate case in accordance with applicable law and that Petitioner has given proper notice to its customers of the nature and extent of the proposed rate increase. The Commission thus finds that due, legal, and timely notice of this matter 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 the Petitioner and the subject matter of this proceeding, and may issue an Order in this Cause based upon the information filed as provided by 170 IAC 14-1-6.

2. **Applicant's Characteristics.** Petitioner is a Class C not-for-profit water utility serving approximately 300 customers within a rural area of Monroe County southeast of Bloomington, Indiana. Petitioner purchases all of its water from Bloomington Municipal Utilities ("Bloomington"), and has no wells, treatment plants, storage tanks, or pressure facilities of its own. Because Petitioner operates as a not-for-profit entity, its revenue requirement is determined by Ind. Code § 8-1-2-125.

3. **Test Period.** The test period selected for determining Petitioner's revenues and expenses reasonably incurred in providing water utility service to its customers includes the twelve (12) months ending December 31, 2009. With adjustments for changes that are fixed, known and measurable, the Commission finds this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

4. **Relief Requested.** Petitioner's current rates and charges were placed into effect following the Commission's December 20, 2006 Order in Cause No. 43080-U. Petitioner originally sought an increase of 53.10% or \$41,277 in its base rates and charges.

5. **OUCR Report.** The OUCR filed its Report, which was prepared by Richard Corey and Roger Pettijohn. The Report recommends several adjustments to Petitioner's revenue and expense calculations. The OUCR Report recommended the Commission grant Petitioner an increase in rates of 39.03% or \$32,413.

A. **Customer Growth Normalization.** Petitioner included a revenue adjustment to normalize the effect of residential and commercial customer growth on a per bill basis for test-year sales. The effect of Petitioner's adjustment was an increase of \$1,213 in pro-forma residential water revenues. The OUCR argued Petitioner's methodology failed to consider that new customers would be charged for different volumes of water used each month throughout the year. The OUCR's normalization methodology resulted in an increase of \$1,300 for residential water sales.

B. **IURC Fee.** In its application, Petitioner used an IURC fee rate of .10736%. However, the OUCR's report pointed out the current IURC fee rate for fiscal year 2010-2011 is .118925%.

C. **Master Meter Reading Expense.** Petitioner included an expense item of \$7,200 for daily readings of the water meter that records water purchased from Bloomington. Petitioner indicated the daily readings were required by the Indiana Department of Environmental Management ("IDEM"). The OUCR Report questioned the appropriateness of the expense, noting Petitioner produced no written requirement from IDEM, the master meter readings were not being recorded on the IDEM-MRO Report, and Petitioner had not indicated any derived benefit from the daily readings.

The OUCR attempted to confirm the requirement by contacting IDEM directly, but was unable to confirm whether or not IDEM required the daily readings. The OUCR also pointed out no agreement existed for payment of the \$20 daily meter reading fee to Petitioner's meter reader.

Therefore, the OUCC recommended exclusion of the \$7,200 annual expense for daily meter reading.

**D. Board Fees.** Petitioner included payments made to Petitioner's board members for attending a board meeting in December of 2009. The OUCC Report indicated that according to the minutes of the January, 2010, board meeting, no meeting was held in December, 2009. Therefore, the OUCC recommended exclusion of the payments, totaling \$900, made to Petitioner's board members for the December board meeting.

**E. Working Capital.** Petitioner included an expense item for working capital in the amount of \$688. The OUCC Report asserted Petitioner had \$89,010 in cash and near cash investments on its balance sheet at the end of the test year. The Report acknowledged Petitioner consumed \$28,853 of its cash reserves in 2010; however, the OUCC argued Petitioner still has sufficient cash on hand to eliminate the need for working capital as a revenue requirement. Therefore, the OUCC recommended exclusion of the \$688 amount requested for working capital.

**F. Calculation of Percentage Increase.** The OUCC report indicated Petitioner reduced water receipts revenue by the amount of utility receipts tax expense incurred during the test year. The Report argued this error incorrectly reduced the amount of revenues at current rates subject to increase and caused Applicant's requested increase to be artificially inflated. The OUCC corrected the error in its calculation of Petitioner's revenue requirement.

**6. RHSR's Response.** Petitioner responded to only three items in the OUCC's report: the master meter reading expense; the board fees; and the calculation of the percentage increase.

**A. Master Meter Reading Expense.** Petitioner agreed with the OUCC that daily reading of the master meter that records water purchased from Bloomington is not justified. Petitioner provided an email from IDEM, which indicates the daily meter reading is no longer necessary; however, Petitioner demonstrated IDEM still requires two readings of the master meter per week. In addition, Petitioner also submitted evidence showing IDEM is now requiring RHSR to take daily readings of chlorine levels in its water supply. Petitioner indicated the estimated cost of the new mandated procedures will be \$14,600 per year, and requested that this number be substituted for the \$7,200 master meter reading expense. Subsequent to Petitioner's rebuttal evidence, the OUCC informed Commission staff it does not object to the inclusion of the \$14,600 costs.

**B. Board Fees.** Petitioner argues its board did have a meeting in December of 2009, at which it authorized the payment of bills, but did not take minutes. Petitioner asserts the minutes of the January meeting were incorrect.

**C. Calculation of Percentage Increase.** Petitioner responded that the OUCC calculated its percentage increase using gross revenues and improperly included sales tax, which is not a revenue item because the tax simply passes through to the Indiana Department of Revenue. The OUCC confirmed the error with Commission staff.

7. **Proposed Revenue Requirements.** Petitioner requested a net revenue requirement of \$123,109. The OUCC originally recommended a net revenue requirement of \$119,555. The following table provides a comparison of the parties' proposed revenue requirements:

	Per Applicant	Per OUCC	Difference More/(Less)
<b>Revenue Requirement:</b>			
Extensions and Replacements	\$ 28,750	\$ 28,750	\$ -
Operation & Maintenance Exp.	96,753	88,669	(8,084)
Taxes Other Than Income	-	5,218	5,218
Working Capital	688	-	(688)
Total Revenue Requirement	126,191	122,637	(3,554)
Less: Interest Income	3,082	3,082	-
Net Revenue Requirement	123,109	119,555	(3,554)
Less: Revenues at Current Rates	77,742	83,047	5,305
Other Revenues at current rates	4,134	4,134	
Revenue Increase Required Excluding Taxes	41,233	32,374	(8,859)
Add: Additional IURC Fee	44	39	(5)
Net Revenue Increase Required	<u>\$ 41,277</u>	<u>\$ 32,413</u>	<u>\$ (8,864)</u>
Recommended Percentage Increase	<u>53.1%</u>	<u>39.03%</u>	<u>-14.07%</u>

8. **Commission Findings.**

A. **Operating Revenue.** Applicant calculated its operating revenue at present rates to be \$81,876. The OUCC proposed an increase of \$5,305, which includes an increase of \$87 for customer growth and an increase of \$5,218 for sales tax, resulting in present rate operating revenues in the amount of \$87,181. The Commission agrees with the OUCC's methodology to normalize test year revenues in light of residential and commercial customer growth. However, the OUCC improperly included \$5,218 of revenue received from sales tax in its calculation. After removing the sales tax the result is operating revenues of \$81,963 (\$87,181-\$5,218=\$81,963). Therefore, the Commission finds that for ratemaking purposes Petitioner's operating revenue is \$81,963.

B. **Master Meter Reading Expense.** The OUCC correctly removed the \$7,200 expense for daily reading of the master meter given the fact that IDEM no longer requires the daily reading. However, Petitioner submitted unopposed evidence that IDEM still requires bi-weekly readings of the master meter and additionally requires it to conduct additional testing for Chlorine levels at a total cost of \$14,600. Based upon the evidence, the Commission finds the \$14,600 amount is reasonable and should be included in Petitioner's revenue requirement.

C. **Board Fees.** The OUCC excluded \$900 in board fees for December of 2009 because the minutes of the January, 2010 board meeting indicated no meeting occurred in December, 2009. Petitioner acknowledges no minutes exist for the December, 2009 meeting, but

asserts the meeting did take place. If the lack of minutes for the December, 2009 board meeting were an anomaly, we would be inclined disagree with the OUCC about the reasonableness of excluding the expense item. However, the OUCC provided the minutes of both the January, 2009 and January, 2010 meetings, both of which indicate no meetings took place in December, 2008 or December, 2009. In addition, in Petitioner’s response to the OUCC’s report, Petitioner asserts that although the OUCC’s Report was dated November 3, 2010, “no one on the board ... recalls reading this report prior to January 3, 3011.” This statement lends further support to a finding that Petitioner’s board does not meet in December. Therefore, the Commission finds the \$900 expense for board fees for the December board meeting is not reasonable and should not be included in Petitioner’s revenue requirement.

**D. Working Capital.** The OUCC excluded \$688 in working capital from Petitioner’s revenue requirement, because Petitioner has substantial balance of cash and near cash assets. The Commission agrees Petitioner has sufficient cash assets on hand and does not require additional working capital. Therefore, the Commission finds the \$688 expense for working capital is not reasonable and should not be included in Petitioner’s revenue requirement.

Taking into account the above findings and the evidence submitted by the parties, the Commission finds Petitioner’s net revenue requirement is \$128,931. The following table summarizes Petitioner’s revenue requirement as approved by the Commission:

<u>Revenue Requirement:</u>	
Extensions and Replacements	\$ 28,750
Operation & Maintenance Exp.	103,263
Taxes Other Than Income	-
Working Capital	-
Total Revenue Requirement	<u>132,013</u>
Less: Interest Income	<u>3,082</u>
Net Revenue Requirement	128,931
Less: Revenues at Current Rates	77,829
Other Revenues at current rates	<u>4,134</u>
Revenue Increase Required Excluding Taxes	46,968
Add: Additional IURC Fee	<u>57</u>
Net Revenue Increase Required	<u>\$ 47,025</u>
Percentage Increase	<u>60.4%</u>

Petitioner’s cash requirements exceed its revenues by \$47,025. Although this revenue requirement exceeds Petitioner’s original request for authorization to earn an additional \$41,277 in revenues, Petitioner reiterated its original request for a rate increase of 53.1% or \$41,277 in its response to the OUCC’s report. As a result, the Commission finds the evidence supports Petitioner’s original request for a rate increase and the increase is reasonable. Therefore, Petitioner should be allowed to increase its rates by 53.1% or \$41,277.

**9. 30-Day Filing.** On September 28, 2010, Petitioner filed with the Commission’s

technical staff a 30-day filing in accordance with 170 IAC 1-6, 170 IAC 6-5, and Ind. Code § 8-1-2-61.6. The 30-day filing indicates Petitioner purchases all of its water from Bloomington and requests a revision in Petitioner's tariff to account for increased purchased water costs resulting from an anticipated increase in rates granted to Bloomington in Cause No. 43939. In order to avoid two rate increases within a short period of time, the Commission issued a Docket Entry on January 19, 2011, indicating its intent to take administrative notice in this Cause of the 30-day filing. In addition, the Commission indicated it would issue its Order in this Cause concurrent with the Order in Cause No. 43939 and authorize rates that would reflect the increased purchased water costs resulting from the Order in Cause No. 43939. On March 2, 2010, The Commission issued an Order in Cause No. 43939, granting Bloomington a two-phased increase in rates.

**A. Phase I Increase.** The Phase I increase takes effect immediately and includes a 15.45% across-the-board increase in rates – from \$1.37 to \$1.58 per 1,000 gallons. During the test year, Petitioner purchased 21,732 gallons of water from Bloomington. Therefore, the Phase I rate increase results in an immediate increase in Petitioner's revenue requirements of \$4,564.

The Order in 43939 also includes an increase in the 4" monthly meter charge from \$57.01 to \$65.82 each and an increase in the 2" monthly meter charge from \$15 to \$17.32 each. Petitioner currently has two 4" meters and two 2" meters. Therefore, Petitioner's total annual meter charge will increase by \$268. The result of the rate increase and the meter charge increase results in a total annual increase in Petitioner's revenue requirement of \$4,832. The table below summarizes Petitioner's revenue requirement after the increase in purchased water costs:

	Before Purchased Water	Add Purchased Water	Total With Purchased Water
<u>Revenue Requirement:</u>			
Extensions and Replacements	\$ 28,750	\$ -	\$ 28,750
Operation & Maintenance Exp.	97,435	4,832	102,267
Total Revenue Requirement	126,185	4,832	131,017
Less: Interest Income	3,082	-	3,082
Net Revenue Requirement	123,103	4,832	127,935
Less: Revenues at Current Rates	77,742	-	77,742
Other Revenues at current rates	4,134	-	4,134
Revenue Increase Required Excluding Taxes	41,227	4,832	46,059
Add: Additional IURC Fee	50	6	56
Net Revenue Increase Required	<u>\$ 41,277</u>	<u>\$ 4,838</u>	<u>\$ 46,115</u>
Recommended Percentage Increase	<u>53.1%</u>	<u>N/A</u>	<u>59.3%</u>

Considering the increase in purchased water costs, the Commission finds Petitioner's net revenue requirement is \$127,935. As a result, Petitioner should be authorized to increase its rates by 59.3% or \$46,115.

**B. Phase II Increase.** The Phase II rate increase in Cause No. 43939 will

take effect upon the issuance of Waterworks Revenue Bonds by Bloomington and will consist of up to an additional 30.23% across-the-board increase in rates. The Commission ordered Bloomington to notify its customers at least thirty days prior to the Phase II rate increase. Upon notification by Bloomington of the Phase II increase, Petitioner shall file with Commission staff a 30-day filing for a revision to its tariff to account for the increased purchased water charges.

10. **Effect on rates.** An average customer using 5,000 gallons of water per month will experience a monthly bill increase of \$11.78 to \$31.64 per month.

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

1. Consistent with the findings above, Rhorer, Harrell & Schacht Roads Water Corporation is hereby authorized to increase its rates and charges by \$46,115 annually, so as to produce a net annual revenue of \$127,935, which represents a 59.3% across-the-board increase in revenues.

2. Prior to placing into effect the rates and charges approved herein, Petitioner shall file a tariff schedule set out in accordance with Commission rules for filing utility tariffs, which shall be prepared for the purpose of accomplishing the findings set forth above, with the Water/Sewer Division of the Commission. When filed with the Commission, such tariff shall cancel all prior rates and charges.

3. Upon notification by Bloomington Municipal Utilities of the Phase II rate increase authorized in Cause No. 43939, Petitioner shall file a 30-day filing with Commission staff to revise its tariff in light of the increased water rate and meter charges.

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

**AT THERHOLT, LANDIS, MAYS, AND ZIEGNER CONCUR; BENNETT ABSENT:**

**APPROVED:**

MAR 02 2011

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



**Brenda A. Howe**

**Executive Secretary to the Commission**