

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF) CAUSE NO. 43970 U
HILLSDALE WATER CORPORATION FOR A)
NEW SCHEDULE OF RATES AND CHARGES) APPROVED: SEP 07 2011

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BY THE COMMISSION:

Carolene Mays, Commissioner
Gregory R. Ellis, Administrative Law Judge

On November 19, 2010, Hillsdale Water Corporation (“Hillsdale” or “Applicant”) filed its Small Utility Rate Application (“Application”) with the Indiana Utility Regulatory Commission (“Commission”) pursuant to the provisions of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On December 10, 2010, the Commission issued a Memorandum indicating that Hillsdale’s Application was incomplete. Hillsdale filed additional information in support of the Application on March 16, 2011 including proofs of notice by publication and notice to customers as required by 170 IAC 14-1-2(b). On March 17, 2011, the Commission determined that the Application was complete. On June 15, 2011, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report (“Report”) with the Commission as required by 170 IAC 14-1-4. The Report detailed its review of the Application and made several recommendations to the Commission concerning the relief requested by Hillsdale. Hillsdale did not file a 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 the OUCC. No request for a hearing was received by the Commission. Accordingly, no hearing has been held.

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

1. **Notice and Commission Jurisdiction.** The evidence presented by Hillsdale in this Cause establishes that legal notice of the filing of the Application was published in accordance with applicable law, and that Hillsdale gave proper notice to its customers of the nature and extent of the relief it is seeking. Therefore, the Commission finds that due, legal, and timely notice of the matters in this proceeding was given and published as required by law. Hillsdale provides rural water service to fewer than 5,000 retail customers and does not serve another utility. Accordingly, the provisions of 170 IAC 14-1-2 are applicable to the Application, and Hillsdale 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 Applicant and the subject matter of this Cause.

2. **Applicant’s Characteristics.** Applicant is a Class C not-for-profit water utility serving approximately 264 customers in a rural area of Vermillion County and near Hillsdale, Indiana. Hillsdale pumps its water from two submersible wells located in the Wabash Valley Moraine. Hillsdale has sufficient capacity to meet a one day demand of 50,000 gallons even with its largest pumping unit out of service. System storage of 50,000 gallons is also supported by stand-by power, which is available for pumping during emergencies. Applicant’s distribution network

consists of approximately 36 miles of 2 to 6 inch PVC main. Applicant was originally organized in 1970. Because Hillsdale operates as a not-for-profit utility, its revenue requirements are determined by Ind. Code § 8-1-2-125.

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

4. **Existing Rates and Relief Requested.** Hillsdale's existing rates and charges were established in the Commission's September 14, 1977 Order in Cause No. 34951. In the Application, Hillsdale requested an across-the-board rate increase of 30.23% or \$22,846 in its rates and charges in order to increase its annual water utility revenue and provide for capital improvements. Hillsdale also requested approval of non-recurring charges for a \$27.50 Bad Check Charge, a \$40.00 Reconnection/Disconnection Charge and a \$795.00 Tap/Connection Fee.

5. **OUCC Report.** The OUCC filed its Report on Hillsdale's Application on June 15, 2011. The Report indicated the OUCC conducted a thorough analysis of the Utility's Application, reviewed the Utility's books and records, reviewed historical documents, and discussed various issues with team members. As a result, the OUCC recommended several adjustments to Hillsdale's Application. Considering the adjustments, the OUCC recommended that Hillsdale be allowed to increase rates by 18.64% compared with the 30.23% increase requested in Hillsdale's Application. In addition, the OUCC recommended that Hillsdale's Tap/Connection Fee be increased to \$956.00 and that Hillsdale should provide updated information about its operational wells in its next Annual Report.

A. **Revenue Adjustments.** The OUCC Report indicated that during their review of Applicant's books and records it was determined that the revenues reported in Hillsdale's general ledger did not match the revenues contained in the Application. The OUCC indicated that monthly revenues from August 2009 to December 2009 had not been booked to the general ledger during the test year, but had been added by Hillsdale's accountant when he prepared his compilation report for the calendar year 2009. Activity in the general ledger's revenue accounts and the list of unrecorded revenues provided at the audit indicates that approximately one month of water revenues are missing from the revenues reported in the Application. The OUCC's adjustment added \$5,847.00 to revenues. In addition, the OUCC determined the Customer Growth Adjustment for 2009 to be \$1,699.00 whereas Hillsdale had it listed as \$1,574. These adjustments taken together increased Hillsdale's revenue by \$7,546.00 for a total of \$81,541.00.

B. **Expense Adjustments.**

(1) **Agreed Adjustments.** The OUCC accepted Applicant's adjustments to decrease test year labor expense by \$1,029.00, increase purchased power expense by \$191.00, decrease maintenance expense by \$25,423.00, increase rate case expense by \$1,667.00 and increase postage expense by \$29.00.

(2) **Capital Expenditures.** The OUCC Report indicated that during the audit of Hillsdale's books and records it was determined that several capital items, including pumps, meters, a new roof and the replacement doors on two of Hillsdale's buildings had been expensed.

The OUCC argued that an investment of \$1,000.00 or more made to the infrastructure of the utility should have been capitalized. Therefore, the OUCC recommended the \$18,703 listed as operating expenses be excluded and that the entries be listed as capital expenditures. The OUCC also increased Applicant's test year Depreciation expense by \$2,858 for Utility Plant in Service and the capitalized expenditures discussed above.

(3) **Disallowed Expense.** In its Report, the OUCC indicated that during the audit of Hillsdale's books it was determined that the Utility had paid \$70.00 for gifts for its employees. The OUCC argued that while it does not wish to discourage such commemorative gifts, the costs of such items provide no benefit to ratepayers and should be excluded as an operating expense.

(4) **Payroll Taxes.** The OUCC noted that Hillsdale did not carry over its payroll tax adjustment from Schedule 6(h) to Schedule 4 of the Application. The OUCC's schedules reflect this adjustment, a decrease of \$400.00.

(5) **IURC Fee.** In its Application, Hillsdale used an IURC fee rate of .10736%. However, the OUCC's report pointed out the current IURC fee rate for fiscal year 2010-2011 is .118925%. The OUCC calculations increased the IURC fee from \$78.00 to \$97.00.

C. **Extensions and Replacements.** Hillsdale proposed an annual Extensions and Replacements ("E&R") budget of \$13,333.00 for the replacement of a booster pump, well cleaning, well and high service pumps and meter change-out. The OUCC's Report indicated that the OUCC does not oppose the proposed budget figure and notes that any emergency event would quickly consume the annual E&R budget. The OUCC's Report recommended that Hillsdale should use E&R funds to set aside a reserve before drawing down cash to be used on less immediate purchases.

D. **Non-Recurring Charges.** Hillsdale requested approval of a \$27.50 Bad Check Charge and a \$40.00 Reconnection/Disconnection Charge. The OUCC indicated in its Report that the cost justifications for Hillsdale's proposed Bad Check and Disconnect/Reconnection Charge have been adequately documented and are reasonable.

Hillsdale also requested approval of a \$795.00 Tap/Connection Fee. The charge covers the costs of: excavating and tapping the main, furnishing and installing service pipe from the main to the lot line, furnishing and installing corporation and stop cocks, and furnishing and installing meter crock, yoke, and meter. The OUCC's Report indicated that Hillsdale does not excavate or provide related equipment and labor in installing a new service connection or main tap. This service is provided by an outside contractor at a cost shown as \$464.00. Hillsdale participates in new connections by providing service materials and inspection of the installation. However, the OUCC noted that the outside contractor service cost has increased to \$625.00, an increase of \$161.00. The OUCC recommended that, as a result, Applicant's proposed Tap/Connection Fee of \$795.00 should be increased by \$161.00 to \$956.00 for total cost of connection.

E. **Recommendations.**

(1) **Meter Replacement.** In its Report, the OUCC noted that for years 2007, 2008 and 2009 Hillsdale had an indicated loss water of 24%, 26% and 13% respectively.

Because of the documented water loss, the OUCC recommended that Hillsdale initiate a consistent meter replacement program.

(2) **Extension of Service.** The OUCC noted that Hillsdale’s Board minutes of February 26, 2009 indicated a self-imposed connection ban. The ban is based on the stated premise that the Utility does not have storage equal to 1 ½ times daily usage. However, only a one day storage reserve is necessary, and for Hillsdale this is satisfied by Hillsdale’s 50,000 gallon plant reservoir. Consequently, the OUCC recommended that Hillsdale make service available as long as capacity is available according to the one day storage standard.

6. **Hillsdale’s Response.** Pursuant to 170 IAC 14-1-4, Hillsdale had until June 30, 2011 to file a response to the OUCC’s Report. Hillsdale did not file a response to the OUCC’s Report.

7. **Revenue Requirements.** Applicant originally proposed a net revenue requirement of \$22,846.00 or a 30.23% across-the-board increase in rates. The OUCC proposed a net revenue requirement of \$15,200.00 or an 18.64% increase in rates. The table below provides a comparison of the two parties’ proposed revenue requirements.

<u>Revenue Requirements:</u>	<u>Applicant</u>	<u>OUCC</u>
Extensions and Replacements	\$ 13,333	\$ 13,333
Operation & Maintenance Exp.	85,382	84,098
Taxes Other Than Income	2,684	2,299
Total Revenue Requirements	101,399	99,730
Less: Interest Income	3,007	3,007
Net Revenue Requirements	98,392	96,723
Less: Revenues at Current Rates subject to increase	75,569	81,541
Revenue Increase Required	22,823	15,182
Add: Additional IURC Fee	23	18
Recommended Increase	<u>\$ 22,846</u>	<u>\$ 15,200</u>
Recommended Percentage Increase	<u>30.23%</u>	<u>18.64%</u>

8. **Calculation of Rate Increase.** The percentage rate increase is calculated by taking the revenue increase required and dividing it by the total revenues subject to increase. The Commission finds the 18.64% increase proposed by the OUCC to be reasonable and supported by the evidence.

9. **Commission Findings.** The evidence of record indicates that the Parties have provided the Commission with sufficient information to determine that the public interest can best be served by accepting Applicant’s small utility filing, as modified by adjustments discussed above. Therefore, based on the evidence presented, the Commission finds that an across-the-board rate increase of 18.64% or \$15,200.00 should be approved. The Commission also finds the \$27.50 Bad Check Charge, \$40.00 Reconnection/Disconnection Charge and the \$956.00 Tap/Connection Fee should be approved.

10. **Effect on Rates.** An average customer using 5,000 gallons of water per month will experience a monthly bill increase from \$26.65 to \$31.62 per month.

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

1. Consistent with the above findings, Hillsdale Water Corporation is hereby authorized to increase its rates and charges by \$15,200.00 annually, which represents an 18.64% across-the-board increase in its water service rates and charges.

2. Prior to placing into effect the rates and charges approved herein, Hillsdale Water Corporation 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. Such rates and charges will become effective for all water service usage upon approval thereof by the Water/Sewer Division of the Commission and shall cancel all prior rates and charges.

3. Hillsdale Water Corporation is hereby approved to collect non-recurring charges of \$27.50 for Bad Check Charge, \$40.00 for Reconnection/Disconnection Charge and increase the Tap/Connection Fee to \$956.00.

4. Hillsdale Water Corporation shall initiate a meter replacement program through its Extensions and Replacements Program. Within three years of the date of this order, no meter within Hillsdale's system should be older than 15 years.

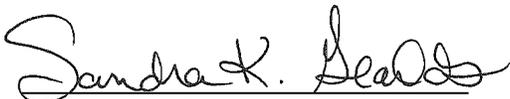
5. Hillsdale's self-imposed connection ban should be eliminated.

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

ATTERHOLT, BENNETT, MAYS AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: SEP 07 2011

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



**Sandra K. Gearlds
Acting Secretary to the Commission**