

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA WATER)
 SERVICE, INC. FOR AUTHORITY TO) CAUSE NO. 44097
 INCREASE ITS WATER RATES AND)
 CHARGES AND FOR APPROVAL OF A)
 NEW SCHEDULE OF RATES AND) APPROVED: NOV 7 2012
 CHARGES APPLICABLE THERETO)

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Jeffery A. Earl, Administrative Law Judge

On October 18, 2011, Indiana Water Service, Inc. (“IWSI”) filed its petition with the Indiana Utility Regulatory Commission (“Commission”) for authority to increase water rates and charges, and for approval of a new schedule of rates and charges. On October 31, 2011, IWSI prefiled the testimony and exhibits constituting its case-in-chief. On November 15, 2011, IWSI and the Indiana Office of Utility Consumer Counselor (“OUCC”) filed a Stipulation and Settlement Agreement in Lieu of Prehearing Conference, which the Commission approved in its November 18, 2011 Docket Entry. On November 30, 2011, IWSI submitted its Proof of Service and Customer Notice.

On March 2, 2012, the OUCC filed its Request for Field Hearing and Modification of Procedural Schedule.¹ Pursuant to notice duly given and published, the Commission conducted a field hearing at the Merrillville High School Auditorium in Merrillville, Indiana, at 6:00 p.m. C.S.T. on April 30, 2012, at which the parties and members of the public appeared.

On May 18, 2012, the OUCC prefiled the testimony and exhibits constituting its case-in-chief. On June 14, 2012, IWSI filed a Stipulation and Settlement Agreement (“Settlement Agreement”) and the supporting testimony of Dimitry Neyzelman. Also on June 14, 2012, the OUCC filed the testimony of Margaret A. Stull in support of the Settlement Agreement.

The Commission conducted an evidentiary hearing in this Cause at 9:15 a.m. on July 10, 2012 in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the testimony and exhibits of the parties were admitted into the record and the respective witnesses were made available for cross-examination. Two members of the general public also appeared and provided testimony regarding the relief sought in this proceeding.

Based upon the applicable law and the evidence of record, the Commission finds:

¹ The OUCC filed a Notice of Additional Request for Field Hearing on March 5, 2012.

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the filing of the Petition in this Cause was given and published by IWSI as required by law. Due, legal, and timely notices of the Prehearing Conference, public field hearings, and the Evidentiary Hearing in this Cause were given and published as required by law. IWSI is a public utility as defined in Ind. Code § 8-1-2-1(a) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Therefore, the Commission has jurisdiction over IWSI and the subject matter of this proceeding.

2. **IWSI's Characteristics.** IWSI owns, operates, manages, and controls plant and equipment that is used and useful in the provision of water service to approximately 1,650 water customers in Lake County, Indiana. IWSI is a wholly-owned subsidiary of Utilities, Inc., which owns corporations that own over 70 systems providing utility service to approximately 270,000 customers in 15 states.

3. **Existing Rates.** IWSI's existing water rates and charges were approved for IWSI's predecessor Lincoln Utilities, Inc. in Cause No. 41710-U on March 21, 2001. In addition to its base rates, IWSI's rates also include a distribution system improvement charge approved by the Commission in Cause No. 42743-DSIC 1 on December 22, 2004, as well as a Water Tracker factor approved by the Commission on September 28, 2011.

4. **Relief Requested.** IWSI requests authorization to increase its present water rates by 63.35%.

5. **Test Year and Rate Base Cut-off.** As provided in the Commission's November 18, 2011 Docket Entry, the test year for determining IWSI's actual and *pro forma* operating revenues, expenses, and operating income under present and proposed rates is the twelve months ended June 30, 2011, adjusted for changes that are fixed, known, and measurable for ratemaking purposes and that will occur within twelve months following the end of the test year. The financial data for this test year, when adjusted for changes as provided in the November 18, 2011 Docket Entry, is a proper basis for fixing new rates for IWSI and testing the effect thereof. The rate base cut-off should reflect used and useful property as of June 30, 2011.

6. **Evidence Presented.**

a. **IWSI Case-In-Chief.** Dmitry Neyzelman, Senior Regulatory Accountant for Utilities, Inc., testified regarding IWSI's need for increased water rates and sponsored IWSI's financial exhibits. IWSI's present rates are insufficient to cover its operating costs and provide a reasonable rate of return on investment in the system. IWSI had test-year operating revenues, after adjustments, of \$468,339 and total operating expenses, after adjustments, of \$575,979, which results in a pro forma operating income loss of \$107,640 under present rates. IWSI's proposed rate increase should allow it to earn a rate of return on net original cost rate base of 8.53% for the water utility.

Mr. Neyzelman testified that all pro forma adjustments were made to the test-year revenues and expenses based on known, fixed, and measurable changes through June 30, 2011. An adjustment was made to salaries and wages to remove from operating expense the amount of labor that was capitalized during the test year. IWSI is proposing depreciation rates of 25% for

utility vehicles and 12.5% for computer equipment and software systems to better reflect their typical useful lives.

Mr. Neyzelman explained the rate base for IWSI's water utility reflects rate base as of June 30, 2011, net of accumulated depreciation reserve, with adjustments to annualize the allocation of vehicles and computers at the end of the test year. He stated all of the utility's property included in the rate base, including plant adjustments, is used and useful and is currently providing service to IWSI customers.

Mr. Neyzelman testified that rather than incur the costs associated with retaining a return on equity ("ROE") expert, IWSI proposed to use a cost of common equity of 10.44%. He provided a table of recent ROEs granted to seventeen of IWSI's sister companies and indicated that the average ROE was 10.44%. Based on a capital structure consisting of 49.69% long-term debt and 50.31% common equity, Mr. Neyzelman calculated a rate of return of 8.53% based on IWSI's recommended cost of equity of 10.44%.

Mr. Neyzelman also described proposed changes to IWSI's water rate design, billing cycle, non-recurring charges and other tariff language. The components of the water revenue requirement are allocated between fixed and variable charges. IWSI is proposing to use the customer's meter size to establish the base facilities charge, which will result in a simpler, more accurate, and less controversial method for determining the base facilities charge for each customer. IWSI is proposing to institute the following non-recurring charges: New Customer Charge; Meter Testing Fee; and After-Hours Call Out Charge. In addition, IWSI is proposing changes to the following current non-recurring charges: Non-Sufficient Funds ("NSF"); Reconnection Charge; Late Payment Charge; and Connection Charge. These charges are proposed to reflect the costs incurred from these services and to provide consistent rates across affiliated utilities. Finally, IWSI is proposing various clarifying changes to its tariff language regarding billing and payment options and IWSI's rules and regulations.

Bruce T. Haas, Regional Director of Operations for the Midwest Region of Utilities, Inc., testified regarding IWSI's water operations. IWSI provides water service to approximately 1,650 customers located in Lake County. Bulk water is purchased from Indiana-American Water Company ("Indiana-American") through two bulk service interconnection points and provided to IWSI's customers through IWSI's water distribution system, which consists of over 17 miles of ductile iron mains with some PVC piping.

Mr. Haas explained that when the system was acquired in 2001, the existing water meters were very old and in need of replacement. In addition, many sections of the water distribution system were in poor condition and in need of repair/replacement. Since the acquisition of the system, IWSI has invested approximately \$700,000 in the water plant, including replacement of old and failing water meters and numerous repairs/replacements of sections of water mains. Mr. Haas provided a summary of the additional specific capital improvements made by IWSI since its last rate case, which include the following: (1) Water Quality and Security Monitoring, at a cost of \$17,693; (2) Engineering for Meter Pit, at a cost of \$16,053; and (3) IWSI Second Interconnect, at a cost of \$55,105.

Mr. Haas testified regarding IWSI's water and service quality. IWSI purchases bulk water from Indiana-American and has no issues regarding its water quality. The majority of customer calls generally involve high bill complaints and water main or water service leaks. Most of the high bill complaints are valid billings and customers generally find that they have a leak within the home. The water mains and service lines within the system are old, and the majority of main breaks are due to weather changes and service work in the area. IWSI hired contractors to complete the repairs. There are a minimal number of water quality calls within the system and, in almost all cases, the water quality returns to normal even before an IWSI representative can arrive at the location to investigate.

b. OUCC Case-In-Chief. Harold Riceman, Utility Analyst for the OUCC, presented the OUCC's adjustments to IWSI's test-year expenses, the general revenue requirements, and adjustments to IWSI's rate base. Mr. Riceman recommended an overall increase of 39.20% to IWSI's water rates to produce an increase in revenues of \$186,687 per year. Mr. Riceman recommended a rate base of \$669,983. This included a net acquisition adjustment of \$29,768 and annual amortization of \$603 (as reflected on Schedule 10 attached to Ms. Stull's testimony), as well as exclusion of \$71,947 in organization costs and a different level of working capital.

The OUCC proposed a lower gross revenue conversion factor than that proposed by IWSI, based on the current IURC fee for 2011 and an adjustment of the calculation of the state income tax rate to reflect the fact that utility receipts tax is not deductible for state income tax purposes. Mr. Riceman accepted IWSI's proposed billing determinant revenue adjustment and proposed two additional adjustments: (1) a normalization adjustment to residential water revenues to account for customer growth during the test year; and (2) an increase to other miscellaneous revenues based on IWSI's proposed increases to non-recurring charges.

The OUCC accepted IWSI's adjustments to salaries and wages, capitalization of labor, pensions and other benefits, and payroll tax. However, the OUCC rejected or modified the remainder of IWSI's expense adjustments. Mr. Riceman disagreed with IWSI's proposal to use a different depreciation rate for vehicles and computers. He testified that absent a depreciation study a water utility with no treatment plant should depreciate all property at the Commission's 1.7% composite rate.

Margaret Stull, Senior Utility Analyst for the OUCC, testified regarding additional adjustments to IWSI's test-year operating revenues and expenses. She also discussed IWSI's rate design and proposed rates in light of the OUCC's proposed revenue requirements. Finally, Ms. Stull testified regarding IWSI's request to change certain non-recurring charges included on its tariff.

Ms. Stull disagreed with IWSI's calculation of its proposed acquisition adjustment for several reasons. First, IWSI's calculation actually indicates a negative acquisition adjustment or a decrease to rate base rather than the addition to rate base reflected on IWSI's exhibits. Second, IWSI's original-cost rate base as of the acquisition date is overstated because it includes assets not purchased from Lincoln Utilities, such as organization costs. Finally, the original cost rate base at acquisition was not calculated in accordance with the Commission's Final Order on Remand in Cause No. 41873 – the “net investor supplied capital” approach. Based on the net

investor supplied capital approach, Ms. Stull calculated an original cost rate base of \$57,645. The OUCC accepted the utility plant and accumulated depreciation balances as shown in Attachment MAS-1. However, Ms. Stull did not believe it was appropriate to include organization costs and therefore the OUCC proposed an original cost rate base at acquisition of \$34,650. She further recommended a net acquisition adjustment of \$29,768 to be included in rate base.

Ms. Stull next addressed contributions in aid of construction (“CIAC”). While it is appropriate for IWSI to include accumulated amortization of CIAC in rate base, IWSI must also include annual amortization of CIAC in its proposed revenue requirement. If a utility is going to amortize its CIAC and include accumulated CIAC amortization in its calculation of rate base, it must also include the annual amortization in its operating expenses.

Ms. Stull objected to IWSI’s proposed total rate case expense of \$151,639 because she believed the amount is extremely high for a utility of IWSI’s size. Specifically, Ms. Stull recommended that IWSI’s rate case legal expense be lowered from \$60,000 to \$35,000, stating that this is a reasonable and equitable estimate for IWSI’s rate case legal costs in this Cause. Ms. Stull further expressed concern with the inclusion of internal labor costs in rate case expense. She opined that rate case expense should represent a utility’s incremental or additional costs incurred to file its rate case, and should not include costs that IWSI will incur regardless of whether it is filing a rate case. She argued that all internal costs should be allocated using appropriate allocation factors and methodology to ensure transparency and eliminate any potential double recovery of costs. Finally, Ms. Stull amortized rate case expense over a seven-year period rather than the three years proposed by IWSI, noting that this is the first case filed by IWSI since it purchased the utility assets of Lincoln Utilities approximately 10 years ago. After removing internal labor costs and reducing legal fees, Ms. Stull recommended that IWSI be allowed to recover total rate case costs of \$38,496

Ms. Stull next testified regarding IWSI’s proposed water rate design. IWSI serves primarily residential customers along with a few commercial customers, and there are really not separate classes of customers with separate costs of providing service. Ms. Stull accepted IWSI’s proposal to eliminate its current declining block rate structure in favor of a rate design that includes a monthly base facility charge plus a volumetric consumption charge. Ms. Stull did, however, propose two changes to IWSI’s proposed rate design. First, she proposed to allocate capitalized labor 50% to the fixed base facility fee and 50% to the variable volumetric rate, consistent with how IWSI allocates wages and salaries. Second, she proposed to recover miscellaneous income equally through the fixed and volumetric charges, rather than the 100% allocation to fixed base facility charge proposed by IWSI.

Ms. Stull accepted the following changes proposed by IWSI: increase in the NSF charge from \$15 to \$25; increase in the reconnection fee from \$25 to \$37.50; changes to the current collection and deferred payment charges; and the new customer charge. However, Ms. Stull did not agree with IWSI’s proposed changes in the description of its reconnection charge regarding the rates to be charged to “seasonal” customers. She, therefore, accepted the first two sentences of IWSI’s revised reconnection charge description but proposed that the remaining two sections of the proposed description be rejected.

Jeffrey Fish, Utility Analyst for the OUCC, testified regarding IWSI's facilities, its recent system improvements, and customer comments and complaints received at the Commission's public field hearing on April 30, 2012. He also discussed approval of certain non-recurring charges proposed by IWSI.

Mr. Fish testified that IWSI purchases water from Indiana-American through two metered inter-system connections and is responsible for a distribution system consisting of over seventeen miles of Ductile Iron water mains with some PVC water main, water valves, service lines, and primarily manual-read water meters with some Automated Meter Reading meters. IWSI does not own, operate, or maintain fire hydrants or storage tanks. The Town of Merrillville, Indiana, owns and maintains ninety-seven fire hydrants connected to IWSI's water system. Indiana-American provides wholesale water and elevated storage facilities to IWSI, thereby providing capacity for water emergencies and fire protection. Because of the higher costs of purchasing water as opposed to producing it, it is especially important for a utility like IWSI to monitor and avoid water loss.

Mr. Fish stated that IWSI performs a limited number of daily water quality tests on site, which provides an opportunity to perform daily inspections of the distribution system. He said that based on his inspection of IWSI's water distribution system and analytical reports, IWSI's operation and maintenance performance is satisfactory at this time. Mr. Fish also discussed planned or completed distribution system improvements. IWSI has installed several new water main isolation valves in the distribution system in recent years, and according to IWSI, a meter change-out program is just beginning.

Mr. Fish testified that the OUCC received one petition requesting a field hearing and seven customer comments. The customer comments mostly focused on the water rate increase, and only a few comments related to IWSI's water quality. Mr. Fish included written customer comments received by the OUCC with his testimony.

Mr. Fish next addressed IWSI's proposed connection charge. IWSI bases its proposed charge on meter size, but does not distinguish between residential and non-residential connections. In addition to the base Connection Charge, IWSI charges \$1,600 for directional boring and an additional price for copper tubing. Mr. Fish expressed concern that IWSI did not adequately support its proposed connection charge, and that the charge is relatively high. He suggested that as an alternative to a defined Connection Charge, IWSI could propose that customers hire a licensed and bonded contractor to install the new tap and water line at the customer's expense.

Mr. Fish also disagreed with IWSI's proposed After-Hours Charge. According to Mr. Fish, this charge could unreasonably discourage customers from calling after hours when emergency service issues arise. If customers are contacting IWSI after hours, IWSI's representatives should be able to distinguish between emergency and non-emergency situations and initiate an appropriate response over the telephone. Mr. Fish recommended denial of this charge.

With respect to IWSI's proposed Meter Testing Fee, Mr. Fish stated that IWSI proposes an acceptable method for testing water meters and a reasonable Meter Testing Fee that should be approved by the Commission.

Edward Kaufman, Senior Analyst, responded to Mr. Neyzelman's proposed cost of equity. He testified that his analysis supported a range of cost of equity of 9.0% to 9.6% for IWSI. Mr. Kaufman agreed with IWSI's decision to avoid the cost of paying for a cost of equity witness, but opined that IWSI's originally proposed cost of equity is somewhat high. He also raised concerns regarding the direct application of cost of equity determinations from other states without demonstrating that each utility is reasonably comparable to IWSI. Mr. Kaufman relied on the analysis provided by IWSI and recent OUCC cost of equity estimates provided to the Commission. The OUCC recommended a cost of equity of 8.6% in Indiana-American's recent rate case. Mr. Kaufman said that if he had performed a thorough cost of equity analysis in this case, it would be similar to the one he completed in the Indiana-American rate case. He acknowledged that Indiana-American was larger than IWSI and that he would recognize IWSI's specific risk by making a company-specific risk adjustment, similar to the one made in the Twin Lakes Utilities, Inc. rate case in Cause No. 43128.

Mr. Kaufman explained that he used his estimated cost of equity from the Indiana-American rate case to establish the low end (8.6%) of his range of estimated cost of equity. He then used IWSI's analysis (removing Sky Ranch) to determine the high end (10.4% rounded) of his range of estimated cost of equity. However, considering current market conditions and IWSI's size, he opined that the low end of his range was unreasonably low and the high end was unreasonably high. Based on his analysis, Mr. Kaufman believed a range of 9.0% to 9.6% is reasonable for IWSI and recommended the Commission authorize a cost of equity of 9.25%.

7. Settlement Agreement and Supporting Evidence. The parties filed a Settlement Agreement, a copy of which is attached hereto and incorporated by reference. The parties agreed to specifics concerning IWSI's rates and charges, cost of equity, expense adjustments, and non-recurring charges. The parties stipulated and agreed IWSI's revenue requirement should be increased by \$204,425, reflecting an increase of 42.93% in IWSI's basic rates and charges.

The Parties have agreed to the use of a weighted average cost of capital of 8.2099% based on a cost of equity of 9.8%. The Parties further agreed that IWSI's original cost rate base is \$730,662, including \$71,947 of Organization Costs reduced by accumulated amortization of \$12,231. The Parties also agreed to the methodology used by the OUCC to calculate working capital.

With respect to IWSI's proposed non-recurring charges, the Parties have agreed that IWSI's proposed Meter Testing Fee and the changes to its Reconnection Charge should be approved as requested. IWSI has agreed to notify its customers specifically about the language added to the Reconnection Charge dealing with seasonal customers. IWSI has also agreed to withdraw its request for approval of an After-Hours Charge in this proceeding. IWSI further agreed to the OUCC's recommendation that its tariff require customers to hire a licensed and bonded contractor to install the new tap and water line at the customer's expense, in lieu of a

defined Connection Charge. Finally, the Parties agreed that IWSI may institute an inspection fee of \$50 in connection with its review of new customer connections.

The Settlement Agreement also provides that the agreed-upon rate case expense of \$80,084 will be amortized over a four-year period, yielding an annual expense of \$20,017. IWSI further agreed to the OUCC's recommendations regarding the ratemaking treatment of the acquisition adjustment and CIAC.

In support of the Settlement Agreement, IWSI filed the settlement testimony of Dimitry Neyzelman. Mr. Neyzelman summarized the terms of the Settlement Agreement and explained that the Settlement Agreement was the result of serious negotiations and bargaining, with the Parties evaluating the issues and ultimately reaching a compromise in the public interest to resolve the disputed issues pending before the Commission in this proceeding. Mr. Neyzelman believes that Commission approval of the Settlement Agreement is in the public interest as it reflects compromise and resolves the disputed issues and that the terms of the Settlement Agreement are reasonable and approval of the Settlement Agreement serves the public interest.

Ms. Stull filed settlement testimony on behalf of the OUCC. She explained that the settlement revenue requirement differed from the OUCC's position set forth in its case-in-chief in three respects: (A) Cost of Equity; (B) Organization Costs; and (C) Rate Case Expense. IWSI proposed a cost of equity of 10.44%, while the OUCC proposed a 9.25% cost of equity. Ms. Stull believes that the agreed-upon 9.8% cost of equity is a fair and reasonable return for this utility at this time when combined with other considerations made in this settlement.

With respect to organization costs, Ms. Stull explained that the OUCC had proposed elimination of \$71,947 of organization costs from rate base because IWSI had not provided support for these expenditures. IWSI subsequently provided supporting documentation for these expenditures and, based on a review of the unredacted invoices, the OUCC agreed that it is appropriate and reasonable to include these costs in rate base. The costs to be included in rate base are related to the acquisition of Lincoln Utilities, including the initial case filed with the Commission, but do not include any costs of pursuing the requested acquisition adjustment after an order was issued in the initial Cause.

With respect to rate case expense, Ms. Stull testified that IWSI had proposed total rate case expense of \$151,639 amortized over three years, as compared to the OUCC's proposed total rate case expense of \$38,496 amortized over seven years. The agreed-upon total rate case expense of \$80,084 amortized over four years represents IWSI's expenditures to date plus an estimate of costs related to settlement activities. Although the OUCC had originally eliminated all internal labor costs from rate case expense, under the settlement, the OUCC agreed to include such costs in rate case expense.

Finally, Ms. Stull stated that the OUCC has accepted IWSI's proposed language for its Reconnection Fee, and that IWSI has agreed to notify all customers of this specific modification in the tariff to insure they are aware of this change. Ms. Stull testified that the Settlement Agreement is in the public interest and recommended that the Commission approve the Settlement Agreement.

8. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement “loses its status as a strictly private contract and takes on a public interest gloss.” *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order – including the approval of a settlement – must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission’s procedural rules also require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement Agreement is reasonable, just, and consistent with the purpose of Indiana Code ch. 8-1-2, and that such agreement serves the public interest.

Upon review of the evidence of record, we find that the Settlement Agreement is the product of arms-length negotiation by the parties and that the terms of the Settlement Agreement represent a reasonable resolution of the issues presented to the Commission. The Commission finds that the terms of the Settlement Agreement are reasonable, and the approval of the Settlement Agreement to be in the public interest.

The evidence demonstrates that IWSI’s current rates and charges are insufficient to meet IWSI’s annual revenue requirement. Therefore, we find that IWSI should be authorized to increase its rates by 42.93% to produce total annual operating revenues of \$204,425. IWSI’s net revenue requirements are illustrated below:

Original Cost Rate Base	\$	730,662
Times: Weighted Cost of Capital		8.2099%
Net Operating Income Required for Return on Rate base		59,987
Less: Adjusted Net Operating Income		(93,726)
Net Revenue Increase		153,713
Gross Revenue Conversion Factor		132.9912%
Revenue Increase	\$	204,425
Percentage Increase		42.93%

With respect to the changes in IWSI’s tariff and non-recurring charges, we find they should be approved as agreed upon in the Settlement Agreement, with one exception. During the evidentiary hearing, IWSI’s witness Mr. Neyzelman acknowledged that there may be a conflict between IWSI’s proposed meter testing fee and the Commission’s rules regarding meter testing, 170 IAC 6-1-11, and that it was not the IWSI’s intent to propose tariff language that was

inconsistent with the Commission's rules. Accordingly, we find that IWSI shall revise its proposed meter testing fee to be consistent with the Commission's rules.

The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (IURC March 19, 1997).

Although we are approving the terms of the Settlement Agreement, we wish to draw attention to IWSI's proposed rate case expense for this case. The Commission believes that IWSI should be able to significantly reduce its rate case expense in the future. For example, IWSI may be able to take advantage of the Commission's small utility filing procedure under Ind. Code § 8-1-2-61.5 and 170 IAC 14. In addition, it is likely given IWSI's size and the lack of complexity in this rate case that IWSI has knowledgeable in-house staff who could have performed the required accounting work as opposed to utilizing outside experts and services. Therefore, we encourage IWSI to explore ways to reduce the rate case expense incurred in filing its next rate case with the Commission.

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

1. The Settlement Agreement is approved with the modification of the meter testing fee discussed above.
2. IWSI is authorized to increase its rates and charges for water utility service by 42.93%, calculated to increase annual operating revenues by \$204,425 to produce total annual operating revenues of \$684,097.
3. IWSI shall file with the Commission's Water/Sewer Division a new schedule of rates and charges, including a revised meter testing fee consistent with 170 IAC 6-1-11, for approval before placing into effect the rate increase authorized herein.
4. This Order shall be effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: **NOV 7 2012**

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



Shala M. Coe
Acting Secretary to the Commission

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA WATER SERVICE,)
INC. FOR AUTHORITY TO INCREASE ITS)
WATER RATES AND CHARGES AND FOR) CAUSE NO. 44097
APPROVAL OF A NEW SCHEDULE OF)
RATES AND CHARGES APPLICABLE)
THERE TO)

STIPULATION AND SETTLEMENT AGREEMENT

Petitioner Indiana Water Service, Inc. ("TWSI" or "Petitioner") and the Office of Utility Consumer Counselor (the "OUCC"), being all of the parties to this proceeding (collectively referred to as the "Parties"), stipulate and agree for the purposes of resolving the issues in this Cause to the terms and conditions set forth below (which terms and conditions and the exhibits attached thereto are collectively referred to herein as the "Settlement").

1. Rate Increase. The Parties stipulate and agree that Petitioner's revenue requirement should be increased by \$204,425, reflecting an increase of 42.93% in Petitioner's basic rates and charges, as detailed in the accounting schedules attached hereto as Attachment 1. The Parties stipulate and agree that the proposed increase in Petitioner's rates and charges is just and reasonable and should be approved.

2. Weighted Average Cost of Capital. The Parties agree that weighted average cost of capital is 8.2099% based on a cost of equity of 9.8%.

3. Rate Base. The Parties stipulate and agree that Petitioner's original cost rate base is \$730,662, including \$71,947 of Organization Costs reduced by accumulated amortization of

\$12,231. The Parties further agree to the methodology used by the OUCC to calculate working capital.

4. Non-Recurring Charges. The Parties agree that Petitioner's proposed Meter Testing Fee and the changes to its Reconnection Charge should be approved as requested. Petitioner agrees to notify the customers specifically about the language added to the Reconnection Charge dealing with seasonal customers. Petitioner agrees that it will withdraw its request for approval of an After-Hours Charge from this proceeding. Petitioner further agrees with the OUCC's recommendation that, as an alternative to a defined Connection Charge, Petitioner's tariff will instead require customers hire a licensed and bonded contractor to install the new tap and water line at the customer's expense. The Parties further agree that Petitioner may institute an inspection fee of \$50 in connection with its review of new customer connections.

5. Accounting Recommendations. The Parties agree to amortize rate case expense of \$80,084 over a four year period yielding an annual expense of \$20,017. Petitioner further agrees with the OUCC's recommendations regarding the ratemaking treatment of the acquisition adjustment and Contributions-in-Aid-of Construction ("CIAC").

6. Use of the Settlement. The Parties shall support this Settlement before the Commission and request that the Commission expeditiously accept and approve the Settlement. If the Settlement is not approved by the Commission without amendment, the Parties agree that the terms thereof shall not be admissible in evidence or in any way discussed in any proceeding. Moreover, the concurrence of the Parties with the terms of the Settlement is expressly predicated upon the Commission's approval of the Settlement without amendment. If the Commission

alters the Settlement in any material way or imposes additional obligations on Petitioner not contemplated in the Settlement, the Settlement shall be deemed withdrawn unless that alteration is unanimously consented to by the Parties in writing. In that event, an informal attorneys' conference will be promptly scheduled where a procedural schedule will be fixed for the processing of the balance of this Cause. The Parties expressly reserve all of their rights, including the right to present appropriate evidence, in the event this Cause is required to be litigated.

The Parties agree to file testimony in support of this Settlement, which shall be offered into evidence without objection and the Parties hereby waive cross-examination. The Parties agree that the evidence in support of this Settlement constitutes substantial evidence to support this Settlement and provides an adequate evidentiary basis upon which the Commission can make any findings of fact or conclusions of law necessary for the approval of this Settlement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as reasonably possible.

If the Settlement is approved by the Commission, the Parties agree that the terms of the Settlement are intended to represent a resolution by compromise of the issues in this Cause. The Parties further agree that the provisions of the Settlement may never be deemed an admission made by any of the Parties, may never be used as substantive precedent in future Commission proceedings and may never be used against any of the Parties in subsequent regulatory or other Commission proceedings, except to the extent necessary to enforce the Settlement.

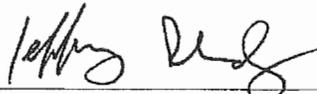
The Parties stipulate and agree that the Settlement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not

constitute a waiver of any position that either of the Parties may take with respect to any issue or item whether or not resolved herein, in any future regulatory or other proceeding.

7. The undersigned have represented and agreed that they are fully authorized to execute this Stipulation and Settlement Agreement on behalf of their designated clients who will be bound thereby.

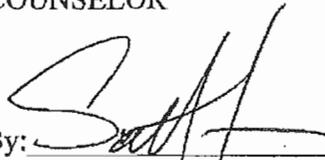
Indiana Water Service, Inc.

Date: 6/14/2012

By: 
Jeffrey M. Peabody

OFFICE OF UTILITY CONSUMER
COUNSELOR

Date: 6/14/2012

By: 
Scott Franson,
Assistant Consumer Counselor