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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF ) CAUSE NO. 44127 U  
COLUMBIA CITY MUNICIPAL WATER )  
UTILITY FOR A NEW SCHEDULE OF ) APPROVED: JUL 31 2012  
RATES AND CHARGES. )

ORDER OF THE COMMISSION

**Presiding Officers:**

**Larry S. Landis, Commissioner**

**Gregory R. Ellis, Administrative Law Judge**

On December 5, 2011, Columbia City Municipal Water Utility (“Columbia City” or “Petitioner”) filed its application for a change in rates and charges (“Petition”) with the Indiana Utility Regulatory Commission (“Commission”) pursuant to the provisions of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. The changes in rates and charges being sought by Columbia City reflect an increase of 36.94% or \$508,933 above its current rates. The Petition also sought authority to issue up to \$2,000,000 in long term debt. On December 22, 2011, the Commission issued a memorandum indicating the Petition filed by Columbia City was incomplete. Columbia City filed proofs of the notice it had published describing the filing of its Petition as required by 170 IAC 14-1-2(b) on January 6, 2012. On January 6, 2012, the Commission determined that the Petition was complete. Columbia City filed four supplemental exhibits to its Petition on January 9, 2012 and two supplemental exhibits to its Petition on January 12, 2012. Columbia City filed its revised Petition on February 10, 2012.

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 Indiana Office of Utility Consumer Counselor (“OUCC”). On January 17, 2012, the Commission received notification of a request by more than ten customers of Petitioner for a public hearing. The Commission granted the request. Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, a public field hearing was held in this Cause on March 8, 2012 at 6:00 P.M., in the Columbia City Council Chambers, 112 South Chauncey Street, Columbia City, Indiana.

On April 5, 2012, the OUCC filed its report (“Report”) with the Commission as required by 170 IAC 14-1-4(a). The Report detailed its review of the Petition and made several recommendations to the Commission concerning the relief requested by Columbia City. Columbia City did not file an objection or a response to the Report as permitted by 170 IAC 14-1-4(b). However, the parties filed a notice of settlement in principle on April 27, 2012. On June 15, 2012, the OUCC prefiled the testimony of Mr. Richard J. Corey, Utility Analyst for the OUCC and the testimony of Columbia City’s witness, Mr. Otto W. Krohn, Executive Partner of O.W. Krohn & Associates in support of the proposed settlement in principle. Columbia City filed a copy of its Ordinance authorizing the issuance of waterworks revenue bonds on June 18, 2012.

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

1. **Commission Jurisdiction and Notice.** The evidence presented by Columbia City in this Cause establishes that legal notice of the filing of the Petition was published in accordance with applicable law, and that Columbia City gave proper notice of the nature and extent of the relief it is seeking to its customers. Therefore, the Commission finds that due, legal, and timely notice of the matters in this proceeding was given and published as required by law.

Columbia City is an Indiana municipal utility that provides water service to fewer than 5,000 retail customers and does not extensively serve another utility. The Petition satisfies all of the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. The Commission, therefore, has jurisdiction over the Petitioner and subject matter of this case.

2. **Petitioner's Characteristics.** Columbia City is an Indiana municipal utility providing water service in Whitley County, Indiana. Columbia City owns and operates a municipal water system and collects rates and charges for the use of and service rendered by the water system pursuant to Ind. Code § 8-1.5-3-8.

Columbia City serves approximately 2,940 residential customers, 602 commercial customers and 34 industrial customers. Columbia City has no wholesale customers. The water system consists of approximately 379,000 lineal feet of mains. The water utility operates three water wells, three elevated distribution storage tanks, a treatment plant, pumping facilities, along with transmission and distribution facilities. The system includes approximately 548 fire hydrants. In 2011, the utility produced 417,179,000 gallons of water.

3. **Existing Rates and Relief Requested.** Columbia City's existing rates and charges were established in the Commission's October 11, 2006 Order in Cause No. 42983. In its Petition, Columbia City requested approval to issue waterworks revenue bonds in the aggregate principal amount of \$2,000,000 to finance proposed capital improvement projects and to increase its rates and charges across-the-board by 36.94% or \$508,933 in order to recover increased operating and maintenance costs and to fund certain improvements as described below. The OUCC recommended an increase of 31.45% or \$433,223 and authority to issue up to \$2,000,000 in revenue bonds.

4. **Public Field Hearing.** Approximately 22 people attended the Commission's Public Field Hearing at the Columbia City Council Chambers in Columbia City, Indiana on March 8, 2012. Five customers presented oral testimony and several customers provided written comments concerning the need for capital improvements and the proposed increase. The Report summarized their responses.

5. **Petitioner's Bond Issue.** Columbia City's Petition requested approval to issue waterworks revenue bond to fund proposed projects. Petitioner's proposed projects consist of the following main extensions and replacements: North Elm; Frontage Road; Jeffrey Drive; Holden Road; West Park Drive & Shineman; and 100 South to Eagle Glen. Petitioner also proposed to construct a new storage barn and implement vehicle replacement. Petitioner proposes to finance the aforementioned projects by issuing bonds in an aggregate amount of \$2,000,000. The Report indicates that completion of these improvements will permit the extension and replacement of

mains, the continued development of the main looping plan, the expansion of under-roof storage and ongoing vehicle replacements (10 year cycle).

The bond ordinance filed by Columbia City on June 18, 2012 authorizes the issuance of waterworks revenue bonds in a principal amount not to exceed \$2,500,000. We note that Columbia City sought approval in its Petition to issue revenue bonds in the amount of \$2,000,000 and the OUCC recommended Columbia City should be authorized to issue up to \$2,000,000 in revenue bonds.

Based upon the evidence contained in the record and the parties' agreement, we find that Petitioner's proposed projects are reasonable and necessary to enable Petitioner to render adequate and reliable utility services to its customers. We also find that the proposed bond issue is a reasonable method to finance the project and we find that Petitioner's request to issue waterworks revenue bonds in an aggregate amount not to exceed \$2,000,000 should be authorized. In the event Columbia City needs more than \$2,000,000 in debt to complete its proposed projects, it will need to seek Commission authority for any additional financing.

**6. Test Period.** The test period selected for determining Columbia City's revenues and expenses reasonably incurred in providing water utility service to its customers includes the twelve (12) months ending December 31, 2010 with adjustments for changes that are fixed, known and measurable. The Commission finds that this test period is sufficiently representative of Columbia City's normal operations to provide reliable data for ratemaking purposes.

**7. Calculation of Rates.** Ind. Code § 8-1.5-3-8 governs rates and charges made by a municipal utility for services. Rates for a municipally-owned water utility are calculated by first determining the amount of the adjusted (i.e., *pro-forma*) net operating expenses based on the utility's current rates. The *pro-forma* amounts are based upon the known test year revenues and expenses updated to include changes that are fixed within the time period, known to occur and are recurring, and are measurable in amount.

After totaling operating expenses, charges for required taxes, extensions and replacements to the extent not provided by depreciation expense, working capital, payment in lieu of taxes (if requested) and debt service requirements are added in. After totaling those revenue requirement elements, interest income, penalties and other income earned by the utility and *pro-forma* revenues at current rates (subject to increase) are subtracted to determine the net revenue increase required. The increase in net revenue is then "grossed up" for taxes related to the increased revenue and income.

**8. Operating Revenue.** Columbia City reported its *pro-forma* present rate annual operating revenue to be \$1,439,998. The Report indicated that the OUCC takes no exception with this amount.

**9. Revenue Requirements.** Columbia City proposed a net revenue requirement of \$1,941,805 in its Petition for an overall rate increase of 36.94%. The OUCC proposed a net revenue requirement of \$1,807,108 or an overall rate increase of 31.45%.

The Commission was notified on April 27, 2012 that the parties had reached a settlement in principle. The parties filed testimony in support of the settlement in principle and proposed order

on June 15, 2012. The testimony of Mr. Corey and Mr. Krohn indicated that Columbia City agreed to accept the OUCC's calculations as filed with the exception of an additional \$19,500 in *pro-forma* wage and benefit expense. This additional expense is necessary to fund a position vacated during the test year which has since been filled. The OUCC agreed with the inclusion of the expense associated with this position.

Based upon the evidence, we make the following findings on each revenue requirement element.

a. Operation and Maintenance Expenses. Operation and Maintenance expenses include all legal and other necessary expenses incident to the operation of the utility providing water service. Petitioner sought *pro-forma* operation and maintenance expense of \$1,220,925, while the OUCC believed a reduced operation and maintenance expense of \$1,155,739 was appropriate. The Petitioner and OUCC have agreed to *pro-forma* operation and maintenance expenses of \$1,175,239. We find that the agreed upon operation and maintenance expenses and utility receipts tax amounts are reasonable and supported by the evidence.

b. Debt Service. Debt service is the money required to make payments on interest expenses, principal, and sinking fund requirements on outstanding loans or bonds during a specific time period. Debt service reserve is an amount of money set aside in a restricted account to satisfy a utility's bond or debt requirements.

Columbia City proposed to issue \$2,000,000 in revenue bonds to fund capital improvement projects. The Report indicated that Columbia City correctly calculated the amount of debt service for the existing 2004 and 2006 revenue bonds and the proposed 2012 revenue bonds. Petitioner calculated its proposed annual total debt service revenue requirement at \$430,856, while the OUCC proposed an annual total debt service revenue requirement of \$431,116. The OUCC's use of a five-year average, instead of a three-year average the Petitioner used, resulted in a higher debt service revenue requirement. The Petitioner and OUCC have agreed to use the \$431,116 calculation. We find the agreed upon amounts to be reasonable and supported by the evidence in this Cause.

Columbia City listed debt service reserve in the amount of \$271,703 in Schedule 10 of the Petition, but did not include it as part of its revenue requirement. Schedule 10 indicated that the debt service reserve was already funded. The OUCC did not address the debt service reserve in its Report. Accordingly, we find that debt service reserve does not need additional funding at this time.

c. Working Capital. Working capital represents operating liquidity and is the money a utility needs to pay necessary expenses in order to provide service until revenues from the service are collected. Working capital is the net amount of money needed on an ongoing basis to fund daily utility operations. Originally, Columbia City proposed an annual working capital revenue requirement of \$41,761 while the OUCC indicated that \$39,045 was sufficient to provide the working capital needed by the utility. The method both parties used for calculating working capital is the 45-day method. The 45-day method assumes the difference between the lead/lag periods is 45 days and calculates 12.5% (45 days / 360 days) of adjusted annual operating expenses as cash working capital. Based on the adjusted operating expenses in the parties' settlement, we find that \$39,858 for working capital is reasonable and supported by the evidence.

d. Extensions and Replacements (Depreciation). Petitioner based its extensions and replacements need on its *pro-forma* depreciation expense calculation in the amount of \$174,481. The OUCC agreed with Petitioner's adjustment. We find that the parties' extensions and replacement expense calculation is reasonable and supported by the evidence.

e. Taxes Other Than Income. Taxes other than income taxes expenses provide money for the payment of any taxes that may be assessed against the utility. Columbia City's Petition and the Report indicated that Columbia City's taxes other than income expense included Payment in Lieu of Taxes ("PILT"), payroll taxes, and utility receipts tax.

The PILT adjustment is calculated when a municipal utility serves a municipality that has elected to collect a property tax payment from the utility as if it were a taxable entity for property tax purposes. Columbia City calculated its proposed *pro-forma* PILT expense as \$52,022 in Schedule 6 of the Petition. The Report indicated that in calculating its *pro-forma* PILT expense Petitioner failed to deduct the estimated assessed value of utility plant in service located outside the city limits from total utility plant before applying the tax rate. The OUCC's adjustment yields a *pro-forma* PILT expense of \$49,535. The parties accepted the OUCC's calculation. We find the amount the parties agreed to reasonable and supported by the evidence.

Columbia City proposed an increase of \$2,622 to account for payroll taxes and \$5,217 to account for *pro-forma* utility receipts tax in Schedule 6 of the Petition. The OUCC proposed an increase of \$441 to account for payroll taxes and \$5,164 to account for *pro-forma* utility receipts tax. The OUCC noted in its Report that in calculating its utility receipts tax adjustment Columbia City deducted the \$1,000 exemption from *pro-forma* present rate operating revenues, but did not deduct bad debt expense before applying the 1.4% utility receipts tax rate. The OUCC adjustment included the bad debt deduction. The Commission finds that \$1,589 is the appropriate adjustment for payroll taxes and \$5,164 is the appropriate adjustment for utility receipts tax.

f. Interest & Other Income. After totaling the revenue requirement elements, interest income, penalties and other income earned by the utility are subtracted to determine the municipal utility's net revenue requirements. In its Petition, Columbia City proposed interest income of \$1,007 and other income of \$62,334 for a total of \$63,341. The OUCC calculated total of \$65,627 differed only in that the OUCC added other non-operating revenue of \$2,286. The Petitioner and OUCC have agreed that Petitioner's revenue requirement should be offset by the amount of Petitioner's interest and other income in the amount of \$65,627.

**10. Discussion and Findings**. Columbia City requested authority to implement a new schedule of rates and charges designed to increase its annual operating revenue by \$508,933. The proposed increase in annual operating revenue would be generated by an across-the-board increase in Columbia City's monthly recurring rates and charges of approximately 36.94%. The OUCC recommended that the Commission only authorize Columbia City to increase its monthly rates and charges to the extent necessary to generate additional revenues of \$433,223. The OUCC recommended increase would result in an increase in Columbia City's monthly recurring rates and charges of approximately 31.45%. After taking the adjustments the parties agreed upon and the Commission's calculation of working capital into consideration, the calculations result in an increase of annual operating revenue of \$454,990 or an increase in Columbia City's monthly recurring charges and rates of 33.03%. The above findings are summarized in the table below:

<u>Revenue Requirements:</u>	<u>(Adjusted)</u>
Operation & Maintenance Exp.	1,175,239
Debt Service	431,116
Working Capital	39,858
Extensions & Replacements/Depreciation	\$174,481
Taxes Other Than Income	21,682
Payment in Lieu of Taxes	49,535
Total Revenue Requirements	<u>1,891,911</u>
Less: Interest Income	1,007
Other Revenues	62,334
Other Non-Operating Revenue	2,286
Net Revenue Requirements	<u>1,826,284</u>
Less: Revenues at Current Rates	<u>1,377,664</u>
Revenue Increase Required Excluding Taxes	448,620
Times: Utility Receipts Tax	1.0142
Net Revenue Increase Required	<u>\$ 454,990</u>
Percentage Rate Increase	<u>33.03%</u>

Based on the evidence presented by the parties, we find that Petitioner's current rates and charges, which produce annual operating revenues of \$1,439,998, are insufficient to provide for Petitioner's annual cash revenue requirements.

The Commission notes the Report indicated that Columbia City does not have a water conservation program and recommends Columbia City be required to provide information to its customers on how to control water use in its next Consumer Confidence Report. The Report also recommended that because Columbia City does not have a master plan it should be required to develop one and submit copies of the plan to the Commission and OUCC by December 31, 2013. Columbia City's annual report certifies that the utility has a master plan. However, Petitioner did not file any response to the recommendations set out in the Report and there was no discussion of these issues in the testimony supporting the settlement in principle. We find these recommendations are reasonable, in the public interest, and should be implemented.

**11. Authorized Rates.** Columbia City shall be authorized to increase its monthly recurring rates and charges on an across-the-board basis by 33.03%. Increasing Columbia City's monthly recurring rates and charges by 33.03% will provide it with an opportunity to produce additional operating revenue of \$454,990. The results of a residential customer using 5,000 gallons per month would be an increase of \$6.47 per month from \$19.53 to \$26.00 based on the approved rate increase.

**12. True-Up.** Since the actual amount of the bonds, the interest rate at which the bonds will be sold, and the cost of annual debt service associated with the proposed capital projects will not be known precisely until Petitioner sells the bonds, the figures proposed in the Petition are estimates rather than actual amounts. Therefore, Petitioner shall file a true-up report with the

Commission and serve a copy thereof on the OUCC within 30 days of closing on its bonds. The true-up report shall include the following: the actual principal amount borrowed, the interest rate, the term of the bonds, the actual average annual debt service and the debt service revenue requirements and the impact that any difference would have on Petitioner's rates.

Petitioner will file an amended tariff giving prospective effect to the actual average annual debt service related to construction of the projects within 30 days of filing the items discussed above unless both parties agree in writing that any differences are immaterial and so notify the Commission of such agreement. If Petitioner files an amended tariff, the OUCC shall have 30 days to file any objections with respect to the calculation of the rates contained within such amended tariff and to request an expedited evidentiary hearing of those objections. If the OUCC does not file an objection within 30 days, the Water/Sewer Division of the Commission shall review Petitioner's amended tariff to take effect at the start of Petitioner's next billing cycle upon approval.

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

1. Consistent with the above findings, Columbia City is hereby authorized to increase its rates and charges by \$454,990 annually, so as to produce total annual revenue of \$1,894,988 which represents a 33.03% increase in its water service rates and charges.

2. Prior to placing into effect the rates and charges approved herein, Columbia City 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. When approved by the Commission's Water/Sewer Division, such schedule shall cancel all prior rates and charges.

3. Columbia City shall be and is hereby authorized to issue waterworks revenue bonds in an aggregate principal amount of up to \$2,000,000, which amount is subject to the true-up provisions in Paragraph No. 12 above.

4. In accordance with Ind. Code § 8-1-2-85, Columbia City shall pay a fee equal to twenty-five cents (\$.25) for each one hundred dollars (\$100) of waterworks revenue bonds issued, but in no case shall the fee be less than one hundred dollars (\$100), into the Treasury of the State of Indiana, through the Secretary of this Commission. All of such fees shall be paid within thirty (30) days of the receipt of the bond proceeds authorized herein by the municipality and only if the bonds, notes, or other securities are issued.

5. Columbia City shall provide information to its customers on how to manage water use in its next Consumer Confidence Report.

6. Columbia City shall submit copies of its Master Plan to the Commission and the Indiana Office of Utility Consumer Counselor on or before December 31, 2013.

7. In accordance with Ind. Code § 8-1-2-70, Columbia City shall pay within twenty (20) days from the date of this Order the following itemized charges incurred by the Commission into the Treasury of the State of Indiana, through the Secretary of the Commission:

Commission Charges	\$ 1,000.00
OUCC Charges	\$ 2,000.00
Legal Advertising Charges	\$ <u>78.11</u>
Total:	\$ 3,078.11

Columbia City shall pay all charges prior to placing into effect the rates and charges approved herein.

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

**ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:**

**APPROVED:**

**JUL 31 2012**

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

  
**Brenda A. Howe**  
**Secretary to the Commission**