

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF EVANSVILLE,)
INDIANA, BY ITS WATER AND SEWER UTILITY)
BOARD, FOR AUTHORITY TO ISSUE BONDS,)
NOTES, OR OTHER OBLIGATIONS, FOR)
AUTHORITY TO INCREASE IT RATES AND)
CHARGES FOR WATER SERVICE, AND FOR)
APPROVAL OF NEW SCHEDULES OF WATER)
RATES, CHARGES, AND RULES AND)
REGULATIONS FOR WATER SERVICE AND FOR)
APPROVAL OF ACCOUNTING AND RATEMAKING)
TREATMENT FOR WATER SERVICE TO REFLECT)
THE IMPACT OF ANTICIPATED CAPITAL)
REQUIREMENTS.)

CAUSE NO. 44137

APPROVED:

FEB 13 2013

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Aaron A. Schmoll, Senior Administrative Law Judge

The City of Evansville, Indiana (“Evansville,” “City,” or “Petitioner”) filed its Verified Petition initiating this Cause on December 29, 2011.

Pursuant to notice duly published, proofs of which were incorporated into the record, the Commission conducted a prehearing conference and preliminary hearing on January 25, 2012 at which Evansville and the Indiana Office of Utility Consumer Counselor (“OUCC”) appeared and participated. The Commission issued its Prehearing Conference Order on February 15, 2012. The procedural schedule was subsequently amended pursuant to the Commission’s April 3, 2012 Docket Entry. Evansville filed an Amended Verified Petition on May 21, 2012, in which it changed its test year from the twelve months ending September 30, 2011 to the twelve months ending December 31, 2011.

Pursuant to notice duly published, proofs of which were incorporated into the record, the Commission conducted a field hearing at Bosse High School in Evansville on June 4, 2012, at which Evansville and the OUCC appeared and members of the public offered testimony.

Pursuant to notice duly published, proofs of which were incorporated into the record, the Commission conducted an evidentiary hearing on September 18, 2012 at 9:30 a.m. Evansville and the OUCC appeared and presented their respective cases, with each witness available for cross-examination. No members of the general public participated at the hearing. Post-hearing briefing was completed on November 20, 2012.

Having considered the evidence of record as well as the applicable law, the Commission now finds that:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of the hearings conducted in this cause was given as required by law. Evansville is a municipally owned utility as defined by Ind. Code § 8-1-2-1(h). Ind. Code § 8-1.5-3-8(f)(2) requires Evansville to obtain this Commission's approval of its water utility rates and charges, and Ind. Code § 8-1.5-2-19 requires approval from this Commission before Evansville may issue debt to fund improvements to its the water utility when water utility assets or revenues are pledged as collateral for such debt, as Evansville has proposed here. Thus, this Commission has jurisdiction over both Evansville and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner owns and operates municipal waterworks facilities that serve approximately 60,000 customers in the incorporated City of Evansville, in unincorporated areas of Vanderburgh County, and in other areas outside of Vanderburgh County, Indiana. Additionally, Petitioner sells water at wholesale to certain other customers such as Gibson Water, Inc., and German Township Water District, Inc.

3. **Relief Requested.** Petitioner requested authority to issue \$31,250,000 in new revenue bonds to fund capital improvements in Petitioner's water system. Petitioner also requested authority to increase its rates and charges on an across-the-board basis through a three-phase rate increase.

4. **Test Year.** The test year selected for determining Petitioner's actual and *pro forma* operating revenues, expenses and operating income under present and proposed rates was the twelve months ended December 31, 2011. With adjustments for changes that are fixed, known, and measurable, we find that this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

5. **The Parties' Evidence.**

A. **Evansville's Case-in-Chief.** Evansville introduced evidence from its Water Superintendent, Roger A. Johnson, and its outside accountant, Douglas L. Baldessari, CPA.

Mr. Johnson offered a general description of Evansville's operations and systems, including its 115-year-old water treatment plant on the Ohio River and 1,000 miles of water mains, including 600 miles of cast-iron mains with an average age of 90 years. Evansville has ten water storage facilities with a capacity of nearly 37 million gallons of water and serves some 60,000 retail customers, plus provides water for fire protection to more than 6,000 hydrants.

Mr. Johnson testified as to Evansville's pressing need to make capital investments in 44 separate improvement projects with a total anticipated cost of \$25,579,000 before financing costs. His listed the capital improvements to be funded with the proceeds of the financing requested in this Cause, broken down into the following eight categories of improvements: Water Treatment Plant; Distribution System; Tanks & Booster Station; Water Source of Supply; Water Main Relocation Projects; Vehicles; Equipment / Facility; and Water Quality Projects. He noted that none of these projects is for an extension of Evansville's distribution system to provide service to new customers. He also noted that even without the need to recover the cost of borrowing and repaying the capital for these projects, Evansville still needs rate relief to offset both increased operational expenses and

declining revenue since it last received a rate increase five years ago.

Mr. Johnson proposed that Evansville's rate increase occur in three phases in order to allow its customers to plan for increases well in advance and make a more orderly transition to higher rates. The first phase would commence as soon as administratively feasible upon this order's issuance and the rates established for that phase would last through December 31, 2013. The second phase would take effect on January 1, 2014 and remain in effect for that entire calendar year, to be replaced by the third phase on January 1, 2015. Mr. Johnson requested that Evansville's new water rates be based on a net annual revenue requirement of \$20,778,258 for phase one, \$22,803,856 for phase two, and \$24,606,654 for phase three. He also noted that such revenue requirements included recovery of payments made to the City of Evansville in lieu of property taxes.

Mr. Baldessari, a Certified Public Accountant and Principal with H. J. Umbaugh & Associates reviewed Petitioner's rate and financing needs and sponsored his Accounting Report. That Report contains *pro forma* financial information for Evansville's test year, the 12 months ended December 31, 2011, adjusted for fixed, known and measurable changes during the succeeding calendar year. It also includes an estimate of the costs and funding of the capital improvements described in Mr. Johnson's testimony and exhibits.

In addition to borrowing \$25,579,000 to fund the capital improvement projects described in Mr. Johnson's testimony, Mr. Baldessari estimated borrowed non-construction costs to be \$5,671,000, including the pre-funding of a \$3.1 million debt service reserve. The total \$31,250,000 in proposed waterworks district revenue bonds also would include capitalized interest on the bonds for one year which will allow Evansville to phase-in the proposed rate increase. Evansville proposed across-the-board rate increases of 19.24% for phase one, 9.75% for phase two and 7.91% for phase three as reflected in Mr. Baldessari's Accounting Report. He also noted that Evansville is proposing to phase-out, beginning in this rate case and continuing through the next two rate cases, the rate differential for its fire protection charges to customers outside the City.

Mr. Baldessari testified regarding the proposed guaranteed performance contract that Evansville had submitted to this Commission for financing approval in Cause No. 44123, and he explained why none of the additional revenues, reduced expenses and associated debt service associated with the contract were factored into his calculations in this rate case. He noted that approval of the contract was still pending, making it speculative for ratemaking purposes. He also emphasized that the benefits Evansville was projected to realize as a result of the infrastructure investments called for under the contract will be used to pay for the debt service costs associated with those additional investments. Noting the anticipated two-year timetable to complete the contract investments, he opined that the adjustments to Evansville's revenues and its revenue requirement would not be fully fixed, known or measurable until long after the increases sought in this rate case have been implemented.

B. OUC's Case-in-Chief. The OUC sponsored testimony from three of its employees: Charles E. Patrick, Edward R. Kaufman and Harold L. Rees.

Mr. Patrick, a Utility Analyst, addressed Evansville's revenue requirement. Through the OUC's corrected schedules filed on September 18, 2012, he recommended that Evansville be granted a rate increase of 33.01%, to be implemented in three phases, based on his proposed revenue increase of \$5,905,624, which he calculated to be \$1,279,756 less than the revenue increase sought

by Evansville.¹

Mr. Patrick proposed modifications to Evansville's adjustments for interest income, forfeited discounts and certain other operating income, including additional revenue from increased non-recurring charges recently approved through this Commission's 30-day filing process. He also proposed to adjust Evansville's revenues for new sales to commercial and industrial customers, and for additional revenue from large meters to be repaired or replaced pursuant to the guaranteed performance contract.

Although Mr. Patrick agreed with Evansville's proposed one-third phase-out of the differential between its in-City and outside-City fire protection charges, and accepted most of Evansville's operations and maintenance expense adjustments, he proposed to reduce by \$46,519 its adjustment for the costs of employee health and life insurance. And while he accepted Evansville's methodology for reducing its depreciation expense during the first two phases of its proposed rate increase, he provided his own calculation of what the total amount should be after including depreciation of the large meters he anticipated would be replaced pursuant to the guaranteed performance contract. Mr. Patrick also performed his own calculation of Evansville's payments in lieu of taxes for each of the three phases of the rate increase.

Mr. Kaufman, Senior Analyst serving as the Assistant Director of the OUCC's Water/Wastewater Division and also a Certified Rate of Return Analyst, evaluated Evansville's request for authority to borrow up to \$31,250,000. Although Evansville's actual borrowing costs will be trued-up after issuance, he opined that the utility's projected interest rates are too high. Specifically, Mr. Kaufman took issue with capping Evansville's borrowing authority based on a 100 basis-point cushion above the MMD "A" interest rate scale as of April 25, 2012. He proposed setting the rate cap without any such cushion, and noted that interest rates have declined between the date of Evansville's case-in-chief and the OUCC's filing.

Mr. Kaufman also recommended that Evansville borrow \$775,000 less than requested and make up this difference from unrestricted cash on hand, which he deemed to be in excess of Evansville's need for cash to meet its ongoing need for working capital. Mr. Kaufman also testified that Evansville should purchase a surety policy for approximately \$125,000 and borrow \$3 million less than proposed, rather than using \$3.125 million to fund a debt service reserve.

Mr. Rees, a Senior Analyst and licensed engineer, reviewed Evansville's proposed capital improvements and also addressed water utility operational issues raised by Evansville's witnesses. He noted that the OUCC did not object to the 44 projects identified by Evansville as necessary to continue providing quality water utility service to its customers, but addressed three projects specifically.

First, Mr. Rees recommended that Evansville amortize the \$300,000 cost to paint its Lincoln Avenue water storage tank over 15 years as a \$20,000 annual maintenance expense, rather than paying the full cost from the proposed new debt issuance. Second, he suggested that Evansville could spread the cost of replacing all of the filter media at its treatment plant over ten years instead of the five years proposed by Evansville. This would cut in half the annual cost, from \$132,000 to \$66,000. Third, he revised upward the cost of dredging in front of Evansville's Ohio River water

¹ The OUCC's September 18, 2012 revisions increased Mr. Patrick's recommended revenue increase by \$597,563.

intake facilities, from \$450,000 as estimated by Evansville to \$464,000 based on the actual accepted bid. He then proposed that this amount be treated as an operating expense instead of a capital project.

Mr. Rees also addressed various aspects of Evansville's operations, describing, for example, the utility's plans to gradually upgrade to more efficient and reliable motors and pumps, which he evaluated to be "aggressive but reasonable." He also found Evansville's pump and motor maintenance budget to be satisfactory. He noted that Evansville has a water conservation plan in place, but suggested that the utility consider completing a system-wide leak detection survey. Finally, he recommended that Evansville develop an alternate plan to provide back-up power for its four booster stations utilizing rented or borrowed generators or some combination thereof.

C. Evansville's Rebuttal Case. On rebuttal, Evansville sponsored testimony from Messrs. Baldessari and Johnson.

Mr. Johnson agreed that once Evansville has completed its proposed five-year program to replace all of the filter media at its water treatment plant, it could revert to a ten year program, cutting in half the annual cost of that program at that time. But he described the current need for a complete replacement of the media as long overdue, warranting the more aggressive five-year program Evansville proposes for the near term. With regard to the cost of painting the utility's Lincoln Avenue water tank and dredging the Ohio River, Mr. Johnson agreed with Mr. Rees' recommendations. Evansville will pay for the \$300,000 tank painting cost out of its cash reserves to meet this current need and recover the cost as a \$20,000 annual maintenance expense over 15 years, and also pay the \$464,000 dredging cost from these same cash reserves.

Mr. Baldessari disagreed with Mr. Kaufman's recommendation that Evansville purchase a surety policy in lieu of funding a debt service reserve from bond proceeds. He noted that, although Evansville had been able to purchase such a surety policy in connection with its issuance of water utility bonds in the first half of 2008, the conditions that made such a purchase favorable back then no longer exist.

Mr. Baldessari testified that purchasing bond insurance is a prerequisite to obtaining a debt service reserve surety policy. But unlike the eight active municipal bond insurers competing for business back in early 2008, he testified that today there is only one provider active in the municipal bond insurance marketplace, Assured Guaranty Ltd. And unlike in 2008, that sole provider has a credit rating no higher than Evansville's. He stated the positive credit rating differential which had resulted in lower interest rates on the 2008 bonds and justified the cost of the bond insurance premium is no longer available. Mr. Baldessari specifically disagreed with Mr. Kaufman's assertion that purchasing a surety policy would be more economical, and he reiterated that the best course for Evansville based on current conditions is to cash fund the debt service reserve requirement from proceeds of the proposed bond issue, and include that cost along with other project costs when sizing the proposed bonds and establishing new water utility rates. Nevertheless, Mr. Baldessari committed Evansville to revisiting this issue before pricing the proposed bond issue in case the climate for bond insurers has improved such that it once again is financially advantageous to purchase bond insurance and a debt service reserve surety policy. In that event, Evansville will reduce the size of the bond issue and "true-up" its debt service reserve requirement following the sale of the bonds.

Mr. Baldessari also disagreed with Mr. Kaufman's recommendation to set the assumed

interest rates on the bonds to the MMD “A” scale with no cushion for any upward movement. In light of the OUCC’s concerns, however, he agreed that a cushion of 50 basis points above that scale, rather than the 100 basis point he had initially proposed, would be reasonable to provide Evansville adequate allowance for fluctuations in market interest rates until the proposed bonds are priced. Having such a cushion was important to protect against the possibility that if rates increase above the OUCC’s proposed cap, Evansville might not have enough bonding capacity to sell the bonds. Mr. Baldessari also noted that Evansville will be filing a true-up report after the bonds are issued, including an updated amortization schedule with the actual interest rates on the bonds, amount borrowed and the resulting true-up water rates and charges. Furthermore, he agreed to true-up the bond sizing for any changes to the overall project costs resulting from the differential in the assumed interest rates and the final interest rates, including capitalized interest, required debt service reserve funding and underwriter’s discount.

Mr. Baldessari included as an exhibit to his rebuttal testimony an updated project costs schedule to reflect the decision, discussed in Mr. Johnson’s rebuttal testimony, to cash fund the tank painting and river dredging costs, along with revised amortization schedule reflecting the slightly smaller bond size and lowered interest rate assumptions.

With regard to OUCC witness Patrick’s proposed adjustments to Evansville’s revenue requirement, Mr. Baldessari noted agreement in several areas. Evansville accepted Mr. Patrick’s proposed additional adjustment to non-recurring items of (\$73,172) for items deemed capital in nature and for services provided outside of the test year. He also accepted Mr. Patrick’s proposed adjustment of \$2,743 for contractual services and a separate adjustment reflecting the treatment of forfeited discounts as revenues subject to increase instead of as an offset to Evansville’s revenue requirement. More significantly, Evansville accepted the OUCC adjustment for additional revenue anticipated as a result of the Commission’s recent approval of Evansville’s 30-day filing to increase certain non-recurring fees.

With respect to Mr. Patrick’s proposed adjustment for Evansville’s health and life insurance costs. Mr. Baldessari testified that including the full \$114,041 adjustment for health and life insurance that was part of Evansville’s case-in-chief was based on the City’s consistent practice of allocating its self-insurance costs across all municipal departments, including the water utility, based on budgeted employee counts.

With regard to Mr. Patrick’s proposed adjustment for commercial and industrial growth, although Mr. Baldessari agreed that some adjustment was in order, he disagreed with Mr. Patrick’s calculation of the appropriate amount. Mr. Baldessari proposed an adjustment of \$22,573 instead of Mr. Patrick’s recommended adjustment.

Mr. Baldessari also testified concerning projected savings from meters Evansville hopes to someday replace pursuant to a guaranteed performance contract that is the subject of Cause No. 44123. As noted in the summary of Mr. Patrick’s testimony, he advocated the inclusion of \$858,547 in expected additional annual revenue from several dozen more accurate and properly sized large water meters. Mr. Baldessari testified that Mr. Patrick had erroneously combined projected water and sewer savings. He noted that Mr. Patrick, while on the witness stand at the evidentiary hearing, reduced to \$283,327 his projection related to the water utility. Mr. Baldessari further disagreed with Mr. Patrick for attempting to include revenue from meters that have yet to be repaired or replaced but not taking any account of the expected cost of the same possible future labor, equipment and debt

service on the proposed bonds to pay for the improvements, and he similarly rejected Mr. Patrick's adjustments for increased depreciation and payments in lieu of taxes associated with assets not placed into service either during the test year or subsequent year-long adjustment period.

With regard to the relatively small number of meters already repaired in anticipation of the guaranteed performance contract, Mr. Baldessari agreed that increased annual revenues projected from those meters that have actually been repaired, amounting to \$60,240 of Mr. Patrick's revised \$283,327 proposed adjustment, could be included in the current rate case notwithstanding the fact that that same \$60,240 would also be dedicated toward paying the debt service on the bonds issued to finance the guaranteed performance contract if the financing is approved by the Commission.²

Finally, Mr. Baldessari described the cumulative impact of the additional adjustments discussed in his rebuttal testimony on Evansville's request for a three-phase across-the-board water rate increase as compared to its original request: The percentage increase for Phase I was reduced from 19.24% to 16.41%, or \$2,901,375; the percentage increase for Phase II was reduced from 9.75% to 8.55%, or \$1,759,672; and the percentage increase for Phase III was reduced from 7.91% to 7.86%, or \$1,755,191. In the aggregate, Evansville is asking for authority to implement new water rates based on its need for additional revenue of \$6,416,238, which translates to an increase of 36.3%, instead of the 41.2% increase originally proposed.

6. Commission Findings and Discussion. The evidence demonstrates that Evansville's current water rates are insufficient to meet its expenses. Although there is much agreement between the parties, the parties do not agree to the amount of the total annual revenue increase that we should authorize. While the OUCC, in its September 18, 2012 corrected schedules, recommends the increase be \$5,905,624, or 33.01% above revenues from current rates, Evansville maintains that an increase of \$6,416,238, or 36.3%, is warranted. We focus our findings, then, on reviewing the arguments relating to this \$510,614 gap between their respective positions.

A. Proposed Financing. Through its rebuttal case, Evansville is seeking to borrow \$30,090,000 at an assumed interest rate based on the August 14, 2012 MMD "A" Scale, plus 50 basis points. The amount to be borrowed includes \$3,009,000 for a pre-funded debt service reserve. Originally, the OUCC argued that Evansville should borrow approximately \$3 million less and purchase a surety policy instead of pre-funding a debt service reserve, and assumed that the interest rate on such debt will be 50 basis points lower than the rate built into Evansville's debt repayment cost assumptions. Those two factors combine to account for \$173,383 of the difference between the two parties' proposed revenue requirements.

Although Evansville purchased bond insurance and a surety policy in place of funding a debt service reserve in connection with its 2008 bond issue, the evidence in this case demonstrates that at least based on conditions in the bond insurance market at the time of the evidentiary hearing the factors which made such a strategy economically advantageous in 2008 are no longer present. In its proposed order, the OUCC appears to agree with the amount of Evansville's proposed financing and the proposed terms.

Given these facts, we are satisfied that Evansville's plan to pre-fund a debt service reserve from bond proceeds is reasonable and prudent, and we so find. We further find, however, that if

² The Commission denied Evansville's petition for reconsideration in Cause No. 44123 on Oct. 31, 2012.

bond insurance market conditions change such that by the time Evansville issues its proposed bonds it determines that it would be more prudent to purchase a debt service reserve surety policy as proposed by the OUCC, which would also require it to purchase bond insurance, then it may do so and reduce the amount of borrowing to reflect the removal of the pre-funded debt service reserve, offset by the cost of the bond insurance and surety policies. With regard to whether this Commission should authorize Evansville to issue bonds at rates capped by the MMD “A” Scale plus 50 basis points, or based on that same scale without adding any basis points, we find Evansville’s proposed 50-basis point cushion to be reasonable, allowing sufficient flexibility to react to bond market fluctuations up to the cap, with the actual interest rate to be reflected in a rate true-up filing within 30 days of its debt issuance.

Finally, when a municipality, such as Evansville, issues debt it must show that the rates and charges “will provide sufficient funds for the operation, maintenance, and depreciation of the utility, and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least ten percent (10%) in excess.” Ind. Code § 8-1.5-2-19(b). Based upon the revenues and expenses determined by the Commission, Evansville has met that requirement.

B. Imputed Revenues for Meter Replacements. The OUCC also proposes to increase Evansville’s test year revenues by \$283,327 based on additional savings Petitioner had hoped to achieve as a result of a meter repair and replacement program to be undertaken pursuant to a guaranteed performance contract. OUCC witness Patrick, who advocated for this adjustment, acknowledged that he based his calculations on an estimated timetable provided in Cause No. 44123, which the Commission ultimately did not approve, and he conceded that the new meters on which he based this revenue adjustment have in fact not been installed. *See, e.g.,* Tr. at A-60 – A-64 (“My understanding would be approximately less than 2,000 meters would need to be replaced for all of the large meters to obtain 95 percent of the revenue benefit. Q: But that has not yet occurred? A: It has not yet occurred.”)

Evansville accepted the OUCC’s inclusion of \$60,120 of this amount, reflecting revenue increases from large meters already repaired either during the test year or the adjustment period, leaving a difference of \$223,207 between the parties. Because the Commission denied the petition for reconsideration and rehearing in Cause No. 44123, adjustments should only be made if the meters have actually been replaced or repaired. Accordingly, any replacement or repairs that were not completed by the end of the adjustment period will not be included in rates at this time.

Of the three adjustments made by the OUCC, we find two to be appropriate. The first was titled “Large Meter – Right Typing” (*see* OUCC Schedule 5, p. 4), which reflects the 32 meters replaced or repaired from July 2011 through June 2012. Here, the OUCC started with the additional monthly revenue of \$21,444, but adjusted that number based on the percentage allocated to water of 33 percent, and annualized that number to calculate a total adjustment of \$84,924.

The second was titled “Large Meter Accuracy Tested” (*see* OUCC Schedule 5, p. 4), which reflected the 12 meters replaced or repaired starting in July 2011 through December 2011. Here, the OUCC took the estimated monthly revenue, \$15,182, but adjusted it based on the percentage allocated to water of 33 percent, and annualized that number which resulted in \$60,120. The OUCC made a further adjustment to account for the actual revenues received in 2011, \$81,761, adjusted for the percentage allocated to water of 33 percent, which calculated to \$26,981. Accordingly, the total adjustment for Large Meter Accuracy Tested is \$33,139 (\$60,120 - \$26,981). The sum of the two

adjustments is \$118,063 (\$84,924 + \$33,139).³

The OUCC also adjusted depreciation expense and Payment in Lieu of Taxes (“PILT”) to account for the additional 32 meters and the 94 meters based on the guaranteed performance contract. Similar with our conclusions on additional revenues based on large meters, we accept the OUCC’s adjustments for the 32 meters, but reject the adjustments for the 94 meters. The adjustment is the cost of the meters, \$2,000 times the number of meters, 32, for a total of \$64,000.

Although we decline to adopt the OUCC adjustment with respect to the 94 meters that were not repaired or replaced, we agree with the OUCC that it is imprudent for Evansville to continue to ignore under-reporting meters when, as the OUCC demonstrated, replacement of the largest meters would result in a collecting a majority of the revenues. We note that Petitioner filed a new petition on January 22, 2013, docketed as Cause No. 44295, seeking approval of a guaranteed performance contract, and this issue shall be addressed in that Cause.

C. Filter Replacement. Both parties made adjustments to test year periodic maintenance expenses relating to the replacement of the media in all 24 filters at Evansville’s water treatment plant. Evansville proposed to undertake this overdue maintenance over five years, at an annual cost of \$132,000. The OUCC proposed to increase the project length to ten years, cutting the annual cost to \$66,000. Evansville agreed that after it has replaced the media over the first five years then it would be prudent to transition to a ten-year media replacement schedule, but until then work should be undertaken over the next five years. The OUCC agreed with this position in its proposed order. Accordingly, we find that annual expenses for periodic maintenance should include \$132,000 to replace all of the filter media within five years.

D. Commercial and Industrial Growth. Evansville and the OUCC also disagreed as to the amount of test year revenues that should be adjusted for commercial and industrial growth. The OUCC proposed a \$52,273 adjustment, which Evansville argued was inflated by \$49,209 after factoring into the calculation the revenue normalization already included in nineteen large customer accounts as well as such developments as the announced closing of Whirlpool’s refrigeration product development facility. With respect to the Whirlpool facility, although the official announcement of the closure did occur within the adjustment period, the actual closure will not occur until the end of 2014, outside of the adjustment period. *See* Tr. B-35 to B-36. Accordingly, any revenue loss should not be included at this time. With respect to the additional proposed adjustment to the normalized large customer accounts, the OUCC noted that seven of those accounts had not been previously adjusted. Accordingly, we find that an overall adjustment of \$52,273 is appropriate.

E. Health and Life Insurance. Finally, the parties disputed the allocation to the water utility of the cost for the City to provide health and life insurance coverage to the utility’s employees. The City proposed dividing its overall cost by the total number of covered employees budgeted for each department and then assesses each department based on their share of budgeted employees. Although the OUCC expressed concern that any time the water utility had an open budgeted position it could be said to be overpaying the City for insurance, Petitioner’s methodology is reasonable. Accordingly, we accept the \$114,041 adjustment proposed by Evansville.

³The Commission does not accept the third adjustment titled “Large Meter Accuracy Non-Tested” (see OUCC Schedule 5, p. 4), as that related to revenues for the 94 meters not yet repaired or replaced.

F. Conclusion. Considering our above findings, we approve the following *pro forma* annual revenue requirement and three-phase rate increase for Evansville:

<u>Annual Revenue Requirements:</u>	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Overall</u>
Operation & Maintenance Exp.	\$ 13,066,067	\$ 13,105,355	\$ 13,129,903	\$ 13,129,903
Additional PILT	1,079,023	1,135,896	1,363,930	1,363,930
Debt Service	4,983,867	6,155,871	6,273,257	6,273,257
Allowance for depreciation	2,000,000	2,500,000	3,880,638	3,880,638
Total Revenue Requirements	21,128,957	22,897,122	24,647,728	24,647,728
Less: Interest Income	(25,843)	(25,843)	(25,843)	(25,843)
Less: Other Non-Operating Income	(140,715)	(140,715)	(140,715)	(140,715)
Net Revenue Requirements	<u>\$ 20,962,399</u>	<u>\$ 22,730,564</u>	<u>\$ 24,481,170</u>	<u>\$ 24,481,170</u>
 <u>Annual Revenues:</u>				
Residential	\$ 9,150,042	\$ 10,597,960	\$ 11,502,657	\$ 9,150,042
Commercial and Industrial	6,213,456	7,197,607	7,817,578	6,213,456
Other revenue at current rates	463,191	463,191	463,191	463,191
Fire Protection	2,233,291	2,586,085	2,806,520	2,233,291
Forfeited Discounts	135,446	156,844	165,166	135,446
Total Annual operating Revenues	<u>\$ 18,195,426</u>	<u>\$ 21,001,687</u>	<u>\$ 22,755,112</u>	<u>\$ 18,195,426</u>
Net Increase Recommended	<u>\$ 2,766,973</u>	<u>\$ 1,728,877</u>	<u>\$ 1,726,058</u>	<u>\$ 6,285,744</u>
Revenue Conversion Factor	0.986	0.986	0.986	-
Recommended Increase	\$ 2,806,261	\$ 1,753,425	\$ 1,750,566	\$ 6,310,252
Recommended Percentage Increase	<u>15.83%</u>	<u>8.54%</u>	<u>7.85%</u>	<u>35.59%</u>
Resulting Bill (Current \$14.42/5000 gal.) ⁴	<u>\$ 16.70</u>	<u>\$ 18.13</u>	<u>\$ 19.55</u>	<u>\$ 19.55</u>

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

1. Evansville is authorized to increase its water rates and charges in order to produce an additional \$6,310,252 in annual revenue beyond that provided by its current rates and charges. The increased rates and charges shall be implemented in three phases as specified in the chart set forth in our above findings. Phase I shall commence upon approval of Evansville's new tariffs as set forth below. Phase I rates shall remain in effect through December 31, 2013. The Phase II rates shall become effective on January 1, 2014 and remain in effect for that entire calendar year, to be replaced by the Phase III rates on January 1, 2015.

2. Evansville is authorized to issue waterworks district revenue bonds in a principal amount not to exceed \$30,090,000 to fund the capital improvements projects approved herein including financing costs, capitalized interest and a debt service reserve. The interest rates on such bonds shall be determined by the market, but shall not exceed 4.05%. In the event Evansville

⁴Not including fire protection surcharges.

acquires bond insurance and a debt service reserve surety policy instead of funding a debt service reserve account, Evansville shall reduce the principal amount of its debt issuance by the amount of the foregone debt service reserve account, offset by the cost of the bond insurance and surety policies.

3. Evansville shall make a compliance filing with the Commission, under this Cause, within thirty days after closing on the bonds approved herein reporting the final terms of such bonds and calculating a true-up of its rates to reflect the actual cost of repayment.

4. Evansville shall file with this Commission under this Cause, prior to placing into effect the new rates and charges approved herein, tariff schedules set out in accordance with this Commission's rules for filing utility tariffs. Upon their approval by this Commission's Water / Wastewater Division, said tariffs shall replace all present and prior rates and charges.

5. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee of twenty-five cents (\$0.25) for each one hundred dollars (\$100) of water utility revenue bonds issued, to the Secretary of the Commission, within thirty (30) days of the receipt of the financing proceeds authorized herein.

6. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within 20 days of the date of this Order, into the Treasury of the State of Indiana, through the Secretary of the Commission.

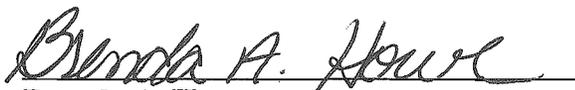
Commission Charges	\$ 7,003.98
OUCG Charges	\$ 26,257.53
Legal Advertising Charges	\$ 218.05
Total	\$ 33,479.56

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: FEB 13 2013

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



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