ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY OF LEBANON UTILITIES FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR ELECTRIC SERVICE AND FOR AUTHORITY TO ISSUE BONDS TO FINANCE CERTAIN PROJECTS	)	CAUSE NO. 44142 APPROVED: SEP 12 2012

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On January 9, 2012, the City of Lebanon, Indiana, by its municipal electric utility, Lebanon Utilities ("Petitioner" or "Lebanon"), filed with the Indiana Utility Regulatory Commission ("Commission") a Verified Petition seeking: (i) authority to increase its rates and charges for electric utility service; (ii) approval of a new schedule of rates and charges applicable thereto; and (iii) authority to issue bonds to finance the cost of certain capital projects necessary in order for Lebanon to continue to provide adequate and efficient electric utility service. In support of the relief requested, Petitioner filed on March 13, 2012, the direct testimony and exhibits of Michael Martin, Scott A. Miller and Mark Beauchamp. Mr. Martin is the General Manager of Lebanon Utilities, Mr. Miller is a Certified Public Accountant and a partner in the firm of H.J. Umbaugh & Associates, Certified Public Accountants, LLP and Mr. Beauchamp is the President of Utility Financial Solutions, LLC.

Pursuant to notice duly published as required by law, a Prehearing Conference was held on February 21, 2012 at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the Indiana Office of Utility Consumer Counselor ("OUCC") attended the Prehearing Conference. No members of the general public attended. On February 29, 2012, the Commission issued a Prehearing Conference Order, in which it established the initial dates for the prefiling of testimony and exhibits by the parties and the evidentiary hearing.

Pursuant to notice duly published as required by law, the Commission held a field hearing on June 11, 2012 at Lebanon Middle School, 1800 North Grant Street, Lebanon, Indiana. Three (3) members of the general public testified at the field hearing and others submitted written comments which were subsequently filed by the OUCC on July 12, 2012 and August 8, 2012.

Prior to the deadline by which the OUCC was to file its case-in-chief, Petitioner and the OUCC notified the Commission that they had reached a settlement agreement with respect to all

of the issues before the Commission, subject to preparation and execution of a written definitive agreement. On July 26, 2012, Petitioner and the OUCC (jointly, the "Parties") filed a Joint Stipulation and Agreement ("Settlement Agreement") resolving all issues in this Cause. Also on July 26, 2012, Petitioner filed the testimony and exhibits of Scott A. Miller, in support of the Settlement Agreement. On the same day, the OUCC filed the direct testimony of Duane P. Jasheway, Utility Analyst in the Electricity Division, in support of the Settlement Agreement.

Pursuant to notice duly published as required by law, an evidentiary hearing was held in this Cause on August 10, 2012, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner offered into evidence the direct testimony and exhibits of Michael Martin, Scott A. Miller and Mark Beauchamp. In addition, Petitioner offered into evidence the testimony and exhibits of Mr. Miller in support of the Settlement Agreement. The OUCC offered into evidence the testimony of Duane P. Jasheway in support of the Settlement Agreement. Neither Party objected to the admission into evidence of the other Party's testimony and exhibits, and both Parties waived cross-examination of all witnesses. The Parties also offered into evidence Joint Exhibit 1, which consisted of the Settlement Agreement with supporting exhibits. One member of the general public appeared at the evidentiary hearing.

Based upon the applicable law and the evidence herein and being duly advised, the Commission now finds that:

1. **Statutory Notice and Commission Jurisdiction**. Due, legal and timely notice of the public hearings conducted by the Commission in this Cause were given and published as required by law. The City of Lebanon, Indiana is a municipality, owning and operating its own electric utility known as Lebanon Utilities. Petitioner is a "municipally owned utility" within the meaning of the Public Service Commission Act, as amended. Petitioner is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. The Commission, therefore, has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics**. Petitioner is authorized to and is engaged in the furnishing of electricity to approximately 8,581 residential, commercial, industrial and other customers located within its assigned service area. The City of Lebanon, Indiana is a member of the Indiana Municipal Power Agency ("IMPA") and Petitioner purchases all of its power and energy requirements from IMPA, pursuant to the terms of a Power Sales Contract. Petitioner's current schedule of rates and charges was placed into effect following the Commission's Order in Cause No. 40012 on January 26, 1995.

3. **Relief Requested and Settlement Agreement**. In its case-in-chief, Petitioner requested an increase of $3,087,475, or 17.27%, in its annual operating revenues from rates and charges for service. Petitioner also proposed to restructure its rates and charges based upon the results of a cost-of-service study prepared and sponsored by Mr. Beauchamp. Petitioner also sought approval of the issuance of electric utility revenue bonds in an aggregate principal amount of approximately $13,000,000 for the purpose of obtaining funds to pay the cost of certain capital improvements to its electric system.

In the Settlement Agreement, a copy of which is attached and incorporated herein, Petitioner and the OUCC agreed that Petitioner's pro forma operating revenues from rates and charges for service should be increased by $2,385,273, or 13.40%. The Parties further agreed to certain other matters as described below.

4. **Test Period**. The test period selected for determining Petitioner's revenues and expenses reasonably incurred in providing electric utility service to its customers was the twelve months ended July 31, 2011. With adjustments for changes that are fixed, known and measurable, we find this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

5. **Field Hearing Public Comments**. Public comments received at the Field Hearing and subsequent thereto included the following concerns: the provision of electric service to a recently annexed area; the extent of the requested increase in rates; and Petitioner's relationship to Lebanon Utilities' Telecommunications Division, known as iLines, and the financial losses incurred by iLines.

6. **Approval of Settlement Agreements**. 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 own procedural rules 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.

7. **Petitioner's Proposed Bond Issue**. Ind. Code § 8-1.5-2-19 provides that a municipality may not issue bonds, notes or other obligations under Ind. Code ch. 8-1.5-2 without prior approval of the Commission. Petitioner's witness Scott A. Miller testified that Petitioner's proposed electric utility revenue bonds would be issued in an aggregate principal amount not to exceed $13,000,000. The proceeds of the electric utility revenue bonds will be used to fund various upgrades to Lebanon's existing substations, as well as the construction of new substations and a new operations facility. Petitioner's witness Mike Martin described the need for the proposed capital improvements in detail.

Mr. Miller stated that the total estimated cost of the projects is $11,610,000, but Petitioner was proposing to issue bonds in an amount not to exceed $13,000,000 since the cost

figures are based on estimates instead of actual construction bids. Petitioner proposed that a true-up procedure be used to adjust the rates and charges in the event of material changes in financing costs based on the results of the actual financing. Mr. Miller stated the true-up "would provide for either an increase or decrease in rates based on the actual amount financed and the actual interest rates resulting from the sale of the proposed bonds." Pet.'s Ex. SAM at 11.

In the Settlement Agreement, the Parties agreed Petitioner should be authorized to issue electric utility revenue bonds in an aggregate principal amount not to exceed $13,000,000. Lebanon agreed to file with the Commission bid tabulations for the proposed capital improvement projects, within a reasonable time after they are received. Lebanon also agreed to make a true-up filing with the Commission within thirty (30) days of closing on the electric utility revenue bonds to reflect the final cost of the projects, the actual principal amount of the electric utility revenue bonds, the interest rate of the debt, the financing term, actual average annual debt service requirements and the actual impact on Lebanon's metered rates. If the actual impact on Lebanon's metered rates is materially different than the proposed increase set forth in the Settlement Agreement, Lebanon will file amended schedules of rates and charges within fifteen (15) days of filing the true-up report.

Several of Petitioner's customers at the Field Hearing expressed disagreement with the City of Lebanon's recent annexation of an area near the I-65 corridor and Petitioner's proposed capital improvement projects to serve that area. They requested the Commission approve a lower bond issue that excludes projects to serve future customers. Decisions concerning the annexation of property rest with the municipality. *See,* Ind. Code ch. 36-4-3. However, once an annexed area has been included in the municipal utility's service area, the utility has an obligation to provide reasonably adequate service to present and future customers within its service area. *See,* Ind. Code ch. 8-1-2.3 and Ind. Code § 8-1.5-3-8.

Based upon the evidence presented, the Commission finds Petitioner's proposed capital improvement projects to be reasonably necessary for the provision of electric service in its service area and Petitioner should be authorized to issue electric utility revenue bonds in an amount not to exceed $13,000,000. Such bonds should be issued upon the terms and conditions set forth in Petitioner's bond ordinance and described in the Settlement Agreement. However, with regard to the true-up provision, the Settlement Agreement fails to define what constitutes a materially different impact on rates. Therefore, any objection to Petitioner's determination of whether the actual impact on rates is materially different than the increase approved herein shall be filed in this Cause within twenty (20) days of Petitioner's filing of its true-up report and may be resolved by the Presiding Officers, subject to an appeal to the full Commission.

8. **Operating Revenue**. The OUCC and the Petitioner agree that Petitioner's pro forma operating revenues for the test period were $17,804,083. Joint Exhibit 1 at 2.

9. **Petitioner's Revenue Requirement**. Ind. Code § 8-1.5-3-8 establishes the revenue requirement elements which the Commission must apply in determining reasonable and just rates and charges for a municipally-owned utility. Certain of the elements are cash revenue requirements, which Petitioner would need to pay as legal and other necessary expenses incident to the operation of its electric utility. These elements include:

(a) maintenance costs, operating charges, including the cost of purchased power, upkeep and repairs;
(b) taxes, including payments in lieu of taxes;
(c) interest charges on bonds or other obligations, including leases;
(d) a sinking fund for the liquidation of bonds or other obligations, including leases;
(e) revenue needed to "provide adequate money for working capital;" and
(f) adequate money for making extensions and replacements to the extent not provided for through depreciation expense.

It is the intention of Ind. Code § 8-1.5-3-8 that rates and charges produce an income sufficient to maintain a municipally owned utility's property in a sound physical and financial condition to render adequate and efficient service. Rates and charges that are too low to meet the foregoing requirements are unlawful. As noted above, the Parties have agreed to the level of Petitioner's annual revenue requirements, which are reflected in Joint Settlement Exhibit 1 attached to the Settlement Agreement and summarized below.

Based on the evidence presented, we find Petitioner's revenue requirements are as set forth below.

a. Operating Expenses Including Cost of Purchased Power. The Parties have agreed to an amount which Petitioner should use for its pro forma revenue requirement for operating expenses, including the cost of purchased power. As a result of concerns raised by the OUCC, Petitioner updated its calculation of pro forma purchased power to a more current time period to reflect the lower energy cost adjustments currently being charged by IMPA. We find that $18,091,290 should be used as Petitioner's revenue requirement for operating expenses, including the cost of purchased power, and is reasonable and supported by the evidence.

b. Extensions and Replacements. After elimination of certain equipment purchases and annual allowances, the Parties agree that Petitioner's revenue requirement for extensions and replacements is $1,005,413. We find this amount to be reasonable and supported by the evidence.

c. Debt Service. The Parties agree that, with certain reductions in principal and interest payments to Petitioner's initial proposal based upon adjustments to the estimated cost of its proposed operations facility, Petitioner's revenue requirement for debt service on its proposed electric utility revenue bonds should be $948,909. We find this amount to be reasonable and supported by the evidence.

d. Debt Service Reserve Funding. The Parties agree Petitioner's annual revenue requirement for debt service reserve funding on the proposed bond issue is $190,357. We find this amount to be reasonable and supported by the evidence.

e. Payment in lieu of Taxes. The Parties agree that Petitioner's revenue requirement for payment in lieu of taxes is $145,642. We find this amount to be reasonable and supported by the evidence.

f. Interest Income and Other Offsets. The Parties agree that Petitioner's revenue requirement should be offset by the amount of Petitioner's pro forma interest income for the twelve months ended July 31, 2011 in the amount of $35,168 and by certain other "below the line" income, which inclusive of interest income totals $225,649. We find this amount to be reasonable and supported by the evidence.

g. Utility Receipts Tax. The Parties agree that Petitioner's rates and charges should be increased by the incremental amount of $33,394 to account for the 1.4% Indiana Utility Receipts Tax resulting from the annual increase in operating revenues.

h. Annual Revenue Requirements. Based upon our findings above, we find that Petitioner's annual net revenue requirement is $20,189,356, as detailed below:

Operations and Maintenance Expense	$18,091,290
Extensions and Replacements	1,005,413
Annual Debt Service	948,909
Debt Service Reserve Requirement	190,357
Payment in Lieu of Taxes	145,642
Total Revenue Requirement	$20,381,611
Less: Interest Income and Other Offsets	($225,649)
Plus: Utility Receipts Tax (1.4% of increase)	$33,394
Annual Revenue Requirement	$20,189,356

We, therefore, find Petitioner's current rates and charges, which produce annual operating revenues of $17,804,083, are insufficient to provide for Petitioner's annual revenue requirements and are, therefore, unreasonable and unlawful.

10. Authorized Rates. Based on the foregoing, we find that Petitioner's current rates and charges for retail electric service should be increased so as to produce additional operating revenues from rates and charges for service of $2,385,273 and total pro forma operating revenues of $20,189,356, representing a 13.40% increase in rates and charges, as shown in Joint Settlement Exhibit 1 attached to the Settlement Agreement.

11. Cost-of-Service Study and Rate Design. Petitioner submitted for the record a cost-of-service study prepared by Utility Financial Solutions. The Parties agree the cost-of-service study is reasonable and should be used by Petitioner to establish a new schedule of rates and charges implementing the authorized increase in operating revenues. The Parties further agree to the proposed reductions in subsidy/excess revenues reflected in Petitioner's cost-of-service study and resulting rate design. A revised copy of Petitioner's rates and charges incorporating the agreed-upon rate increase was attached to the Settlement Agreement as Joint Settlement Exhibit 2. The Commission finds that Petitioner's cost-of-service study should be used in establishing rates in this proceeding and that the rate schedules attached as Joint Settlement Exhibit 2 should be approved.

12. **Other Issues Addressed in the Settlement Agreement**. The Parties agreed to certain other terms with respect to Petitioner's relationship with Lebanon Utilities' Telecommunications Division, known as iLines. The Parties agreed that all expense and fixed asset allocations between and among Petitioner and the City of Lebanon's water utility, sewage works and iLines will remain at their current levels until such time as changes in customer counts or other cost drivers warrant modification. Petitioner agreed to analyze the expense and fixed asset allocations annually and include in its Electric Utility Annual Report filed with the Commission, a summary of the updated analysis, including any proposed changes in the allocations. Petitioner also agreed to use its best efforts to obtain repayment from iLines of the principal amount ($518,429.84) of a loan Petitioner made to iLines, as financial conditions permit. Petitioner also agreed to not loan additional monies to iLines or assume any obligation or liability of iLines.

13. **Commission Discussion and Findings**. The Settlement Agreement states the Parties agree that the terms and conditions set forth therein represent a fair, reasonable and just resolution of all the issues in this Cause. The Settlement Agreement further provides that it shall not be construed nor be cited as precedent by any person or deemed an admission by any Party in any other proceeding except as necessary to enforce its terms before the Commission, or before any court of competent jurisdiction on these particular issues.

After reviewing the terms of the Parties' Settlement Agreement as discussed in more detail above, we find it is reasonable, that the terms of the Settlement Agreement are in the public interest, and that it represents a desirable and lawful resolution of the matters at issue in this proceeding. Therefore, we find that the Settlement Agreement should be approved as modified herein with regard to the true-up provision for the bond issue.

With regard to future use, citation, or precedent of the Settlement Agreement, we find our approval of the terms of the Settlement Agreement should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC March 19, 1997).

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

1. The Settlement Agreement shall be and hereby is approved as set forth herein.

2. Petitioner is authorized to issue its electric utility revenue bonds in an amount not to exceed $13,000,000. Lebanon shall make a true-up filing with the Commission within thirty (30) days of the closing of the financing to reflect the final cost of the projects, the actual principal amount of the bonds, the interest rate of the debt, the financing term, actual average annual debt service requirements and the actual impact on Lebanon's metered rates. If the actual impact on Lebanon's metered rates is materially different than the increase approved herein, Lebanon shall file an amended tariff for approval by the Electricity Division within fifteen (15) days of the filing of the true-up report consistent with the findings set forth herein. Any objections to Petitioner's true-up report shall be filed within twenty (20) days of the filing of the true-up report.

3. Petitioner is hereby authorized to increase its annual revenue from retail rates and charges so as to produce additional operating revenues from retail sales of $2,385,273 and total pro forma operating revenues of $20,189,356, representing a 13.40% increase in rates and charges for the sale of electricity to retail customers, as shown in Joint Settlement Exhibit 1.

4. Petitioner is hereby authorized to use the cost of service study prepared by Utility Financial Solutions to establish a new schedule of rates and charges implementing the authorized increase in operating revenues.

5. Petitioner shall file with the Electricity Division of the Commission new schedules of rates and charges before placing in effect the rate increase authorized herein, which schedules, when approved by the Electricity Division, shall be effective and shall cancel all previously approved schedules of rates and charges in conflict therewith.

6. Petitioner shall pay the following itemized charges within twenty (20) days from the date of this Order to the Secretary of the Commission:

Commission Charges	$ 767.99
Legal Advertising Charges	220.68
Utility Consumer Charges	8,580.87
TOTAL	$9,569.54

7. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee in an amount equal to $0.25 for every one hundred dollars of financing proceeds received, into the Treasury of the State of Indiana, through the Secretary of this Commission within thirty (30) days of the receipt of the financing proceeds authorized herein.

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

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

APPROVED: SEP 12 2012

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

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission

FILED
July 26, 2012
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY OF LEBANON UTILITIES FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR ELECTRIC SERVICE AND FOR AUTHORITY TO ISSUE BONDS TO FINANCE CERTAIN PROJECTS	)))))	**CAUSE NO. 44142**

JOINT STIPULATION AND AGREEMENT BETWEEN THE CITY OF LEBANON UTILITIES AND THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

On January 9, 2012, the City of Lebanon, Indiana, by its municipal electric utility, Lebanon Utilities ("Petitioner" or "Lebanon"), filed with the Indiana Utility Regulatory Commission ("Commission") a Verified Petition seeking: (i) authority to increase its rates and charges for electric utility service; (ii) approval of a new schedule of rates and charges applicable thereto; and (iii) authority to issue bonds to finance the cost of certain capital projects necessary in order for Lebanon to continue to provide adequate and efficient electric utility service. Petitioner filed its direct testimony and exhibits in support of the requested relief on March 13, 2012. Prior to the deadline by which the Indiana Office of Utility Consumer Counselor ("OUCC") was to file its case-in-chief, Petitioner and the OUCC (collectively the "Parties") communicated with each other regarding the possibility of settling this Cause. On July 13, 2012, the Parties notified the Commission that they had reached an agreement with respect to all of the issues before the Commission subject to preparation and execution of a written definitive settlement agreement. Petitioner and the OUCC agree to the following matters and request the Commission to enter the proposed Final Order attached hereto as Joint Settlement Exhibit 3.

1. Petitioner's Operating Revenues. The Parties have reached an agreement concerning the revenue requirements for Petitioner under IC 8-1.5-3-8, which agreement is

reflected in the accounting schedule attached as Joint Settlement Exhibit 1. The Parties agree that Petitioner's total test year pro forma operating revenues are $17,804,083. As shown on Joint Settlement Exhibit 1, the Parties agree that Petitioner's pro forma operating revenues from retail sales should be increased by $2,385,273 in arriving at the pro forma total operating revenues at proposed rates of $20,189,356, representing a 13.40% increase in rates and charges from sales to retail customers.

2. Petitioner's Annual Revenue Requirements. Petitioner's annual revenue requirements determined pursuant to IC 8-1.5-3-8 on the evidence of record and agreed to by the Parties, are as follows:

a. Purchased Power and Operation and Maintenance Expense. Petitioner's annual revenue requirement for purchased power is $14,995,991. Petitioner's annual revenue requirement for other operation and maintenance expenses is $3,095,299.

b. Extensions and Replacements ("E&R"). Petitioner's annual revenue requirement for E&R is $1,005,413.

c. Debt Service on Proposed Bonds. Petitioner's annual revenue requirement for debt service on its proposed bonds is $948,909.

d. Annual Debt Service Reserve Funding on Proposed Bond Issue. Petitioner's annual revenue requirement for debt service reserve funding on its proposed bond issue is $190,357.

e. Payments in lieu of Taxes. Petitioner's annual revenue requirement for payment in lieu of taxes is $145,642.

f. Interest Income and Other Offsets. The Parties agree that Petitioner's total

cash revenue requirement should be offset by the amount of Petitioner's pro forma interest income for the twelve months ended July 31, 2011 in the amount of $35,168 and by certain other below the line income, which inclusive of interest income total $225,649.

g. Utility Receipts Tax. The Parties agree that Petitioner's total cash revenue requirement should be increased by $33,394 to account for the increase in Petitioner's Indiana Utility Receipts Tax resulting from the proposed rate increase.

3. Petitioner's Aggregate Annual Revenue Requirement. Petitioner's annual revenue requirement is $20,189,356, as detailed below:

Operations and Maintenance Expense	$18,091,290
Extensions and Replacements	1,005,413
Annual Debt Service	948,909
Debt Service Reserve Requirement	190,357
Payment in Lieu of Taxes	145,642
Total Revenue Requirement	$20,381,611
Less: Interest Income and Other Offsets	($225,649)
Plus: Utility Receipts Tax (1.4% of increase)	$33,394
Annual Revenue Requirement	$20,189,356

4. Amount of Stipulated Rate Increase and Approval of Changes to Rate Schedules. The Parties agree that Petitioner's current rates and charges for electric service should be increased so as to produce additional operating revenues from retail sales of $2,385,273 and total pro forma operating revenues of $20,189,356, representing a 13.40% increase in rates and charges, as shown in Joint Settlement Exhibit 1.

5. Allocation of Agreed Upon Increase in Operating Revenues. The Parties agree that the cost-of-service study prepared by Utility Financial Solutions (submitted as Petitioner's

Exhibit MB-3 and described in the direct testimony of Mark Beauchamp) is reasonable and should be used by Petitioner to establish a new schedule of rates and charges implementing the authorized increase in operating revenues. The Parties further agree to the proposed reductions in subsidy/excess revenues reflected in Lebanon's cost-of-service study and resulting rate design. A revised copy of Petitioner's rates and charges incorporating the agreed-upon rate increase is attached hereto as Joint Settlement Exhibit 2.

6. Petitioner's Proposed Bond Issue. Pursuant to IC 8-1.5-2-19, Petitioner requested approval from the Commission to issue and sell electric utility revenue bonds in an aggregate principal amount of approximately fifteen million dollars ($15,000,000) for the purpose of obtaining funds to pay the cost of certain capital improvements to its electric system. Petitioner's case-in-chief indicated that the amount of the proposed bond issue should be reduced to thirteen million dollars ($13,000,000). The Parties agree that the Commission should authorize Petitioner to issue electric utility revenue bonds in an aggregate principal amount not to exceed thirteen million dollars ($13,000,000). Lebanon will file the bid tabulations for the various capital improvement projects to be financed by the electric utility revenue bonds with the Commission, and provide copies to the OUCC, within a reasonable time after they are received. Lebanon also will make a true-up filing with the Commission within thirty (30) days of closing on the electric utility revenue bonds to reflect the final cost of the capital improvement projects, the actual principal amount of the electric utility revenue bonds, the interest rate of the debt, the financing term, actual average annual debt service requirements and the actual impact on Lebanon's metered rates. If the actual impact on Lebanon's metered rates is materially different than the increase approved by the Commission in this Cause, Lebanon shall file amended

schedules of rates and charges within fifteen (15) days of filing the true-up report.

7. Best Efforts to Obtain Repayment of Loan to Telecommunications Division. Petitioner will use its best efforts to obtain from Lebanon Utilities' Telecommunications Division, known as iLines, repayment of the principal amount of the loan Petitioner made to iLines, as financial conditions permit. The cumulative outstanding principal balance of the loan as of July 1, 2012 is $518,429.84. Petitioner further agrees that it will not loan any additional monies to iLines or assume any obligation or liability of iLines as a guarantor, endorser, surety or otherwise.

8. Agreement Regarding Expense and Fixed Asset Allocations. The Parties agree that all expense and fixed asset allocations between and among Petitioner and the City of Lebanon's water utility, sewage works and Telecommunications Division will remain at their current levels until such time as changes in customer counts or other cost drivers warrant modification. Petitioner agrees to analyze the expense and fixed asset allocations annually and include in its Electric Utility Annual Report filed with the Commission, a summary of the updated analysis, including any proposed changes in the allocations.

9. Admission of Evidence. The Parties stipulate to the admission into evidence of Lebanon's direct testimony and exhibits and the Parties' testimony in support of the Settlement Agreement. The Parties further agree to waive cross-examination of the other Party's witnesses. The Parties will jointly sponsor this Settlement Agreement and Joint Settlement Exhibits 1 through 3 at the August 10, 2012 evidentiary hearing.

10. Mutual Conditions on Settlement Agreement. The Parties agree for purposes of establishing new rates and charges for Petitioner that the terms and conditions set forth in this

Settlement Agreement are supported by the evidence and based on the Parties' independent review of the evidence, represent a fair, reasonable and just resolution of all the issues in this Cause, subject to their incorporation in a Final Order without modification or further condition, which may be unacceptable to either party. If the Commission does not approve this Settlement Agreement in its entirety and incorporate it into a Final Order as provided above, it shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties. Petitioner and the OUCC represent that there are no other agreements in existence between them relating to the matters covered by this Settlement Agreement.

11. Non-Precedential. As a condition precedent to the Settlement Agreement, the Parties condition their agreement on the Commission providing assurance in the Final Order issued herein that it is not the Commission's intent to allow this Settlement Agreement or the Order approving it to be used as an admission or as a precedent against the signatories hereto except to the extent necessary to enforce the terms of the Settlement Agreement. The Parties agree that this Settlement Agreement shall not be construed nor be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission, or before any court of competent jurisdiction on these particular issues. This Settlement Agreement 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 or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by the Commission, shall not be admissible in any subsequent proceedings. With regard to future use, citation, or precedent of the Settlement Agreement, Commission approval of the terms of the Settlement

should be construed in a manner consistent with the Commission's findings in *In Re Richmond Power & Light*, Cause No. 40434, Order dated March 19, 1997.

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

Respectfully submitted,

Dated: July 26, 2012

CITY OF LEBANON, INDIANA

By: Michael B. Cracraft,
Attorney for the City of Lebanon

Dated: July 26, 2012

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

By: Jeffrey M. Reed
Its Attorney

LEBANON (INDIANA) MUNICIPAL ELECTRIC UTILITY

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL OPERATING REVENUES

Revenue Requirements:	Petitioner Pro Forma	Adjustments	Ref.	Proposed Settlement
Operation and maintenance expense				
Purchased power	$15,568,171	($572,180)	(1)	$14,995,991
Other cash operating expenses	3,095,299	-		3,095,299
Proposed debt service				
Principal and interest payments	955,012	(6,103)	(2)	948,909
Debt service reserve	191,616	(1,259)	(3)	190,357
Additional utility receipts tax	43,225	(9,831)	(4)	33,394
Replacements and improvements	1,192,165	(186,752)	(5)	1,005,413
Payment in lieu of taxes	146,114	(472)	(6)	145,642
Total Revenue Requirements	21,191,602	(776,597)		20,415,005
Less interest income	(35,168)	-		(35,168)
Less penalties	(70,873)	-		(70,873)
Less other	(119,608)	-		(119,608)
Total Net Revenue Requirements	$20,965,953	($776,597)		$20,189,356
Annual Revenues:				
Residential	$7,121,228	($371,202)	(7)	$6,750,026
Commercial single phase	1,274,098	7,138	(7)	1,281,236
Commercial three phase	123,634	9,714	(7)	133,348
Industrial	7,162,551	129,974	(7)	7,292,525
Small Power	1,943,054	163,040	(7)	2,106,094
Street and security lighting	165,653	(8,271)	(7)	157,382
Municipal	88,260	(4,788)	(7)	83,472
Total Revenues	$17,878,478	($74,395)		$17,804,083
Additional Revenues Required	$3,087,475	($702,202)		$2,385,273
Approximate Increase in Present Rates and Charges if Done Across-The-Board	17.27%			13.40%

(Continued on next page)

Joint Settlement Exhibit 1

LEBANON (INDIANA) MUNICIPAL ELECTRIC UTILITY

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL OPERATING REVENUES

(Explanation of References)

(1) Proposed purchased power expense for settlement purposes reflects the actual KW and KWH purchased from IMPA for the 12 months ended May 31, 2012 priced at the 2012 IMPA base rates and the 3rd quarter 2012 ECA charges for demand and energy.

(2) Proposed debt service has been reduced to reflect a reduction in the estimated cost of furnishings for the proposed operations facility. The allowance for furnishings has been reduced from 20% of the estimated cost of the facility to 15% of the estimated cost (approximately $225,000 down to $165,000). Underwriter's discount and rounding have also been adjusted to reflect the smaller bond issue.

(3) Proposed debt service reserve has been adjusted to reflect the smaller bond issue and reduced annual debt service.

(4) Proposed utility receipts tax has been adjusted to reflect the revenue impact of all other adjustments.

(5) Proposed replacements and improvements reflects the following adjustments: the elimination of one of the bucket trucks originally proposed to be purchased in 2012, the elimination of $75,000 per year for local DSM initiatives (this does not include state-wide mandated programs which are being paid on behalf of Petitioner by IMPA), a reduction in funds available for improvements for future service territory changes in 2016.

(6) Calculated as follows (balances as of July 31, 2011):

Utility plant in service	$12,374,103
Add construction work-in-progress	1,877,036
Less accumulated depreciation	(4,223,583)
Plus proposed project (funded with 2012 Bonds)	11,610,000
Net utility plant value	21,637,556
Times 2011 corporate tax rate per $100 of value	0.6731
Annual payment	145,642
Less Petitioner Pro Forma	(146,114)
Adjustment	($472)

(7) The proposed revenue normalization adjustments for Lebanon's purchased power tracking factor have been updated to reflect the roll-in of the 3rd quarter 2012 tracking factor. In addition, revenues from present rates have been updated to reflect the 12 months ended May 31, 2012 in order to propery synchronize the revenues subject to rate increase with the pro forma purchased power calculation.

Joint Settlement Exhibit 1

Joint Settlement Exhibit 2

Municipal Electric Utility

Lebanon, Indiana

Rate RS – Electric Residential Service
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available through one meter for residential service, including lighting, household appliances, refrigeration, cooking, water heating, space heating and small motors not exceeding three (3) horsepower individual capacity.

Character of Service

Alternating current, sixty Hertz, single phase at a voltage of approximately 120 volts two-wire, or 120/240 volts three-wire.

Rate *

Customer Charge per month			$8.00	
First	300	KWH per month	9.66¢	per KWH
Next	700	KWH per month	9.07¢	per KWH
Over	1,000	KWH per month	8.31¢	per KWH

Minimum Charge

The minimum monthly charge shall be the customer charge.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Rate CS – Electric Commercial Service
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available to any customer for light and/or power purposes whose maximum load requirements do not exceed 50 kilowatts. Customer must be located on or adjacent to an electric distributions line of the Utility which is adequate and suitable for supplying the service required.

The availability of this Schedule to polyphase customers is in the process of elimination and is withdrawn except for polyphase customers contracting for service hereunder prior to September 4, 1985, and will not be applicable to any future polyphase customers. If service hereunder is at any time discontinued at the Customer's option, this Schedule shall not again be available.

Character of Service

Alternating current, sixty Hertz, single phase at a voltage of approximately 120/240 volts and polyphase at one of the following voltages: 120/240 volts four-wire Delta, 240 volts three-wire Delta, 480 volts three-wire Delta, 120/208 volts four-wire Wye, or 277/480 volts four-wire Wye, where available.

Rate *

	Single Phase	Polyphase
Customer Charge per month ----------	$15.50	$35.00
First 500 KWH per month----------	10.98¢ per KWH	11.23¢ per KWH
Next 1,000 KWH per month----------	9.89¢ per KWH	10.16¢ per KWH
Next 1,000 KWH per month----------	9.01¢ per KWH	9.25¢ per KWH
Over 2,500 KWH per month----------	8.63¢ per KWH	8.89¢ per KWH

Minimum Charge

The minimum monthly charge shall be the customer charge.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Rate MS – Electric Municipal Service
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available to any metered municipal customer for light and/or power purposes. Customer must be located on or adjacent to an electric distribution line of the Utility which is adequate and suitable for supplying the service required.

Character of Service

Alternating current, sixty Hertz, single phase at a voltage of approximately 120/240 volts and polyphase at one of the following voltages: 120/240 volts four-wire Delta, 240 volts three-wire Delta, 480 volts three-wire Delta, 120/208 volts four-wire Wye, or 277/480 volts four-wire Wye, where available.

Rate *

Customer Charge per month ---------- $15.50
All KWH used per month---------- 7.98¢ per KWH

Minimum Charge

The minimum monthly charge shall be the customer charge.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Rate SGP – Small General Power Service
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available to any customer for light and/or power purposes.

Character of Service

Alternating current, sixty Hertz, at any standard polyphase voltage supplied by Utility in the locality for which the service is requested.

Rate *

Customer Charge per month	$60.00	
First 500 KWH per month	13.41¢	per KWH
Next 2,000 KWH per month	12.00¢	per KWH
Next 2,500 KWH per month	10.02¢	per KWH
Next 5,000 KWH per month	9.18¢	per KWH
Over 10,000 KWH per month	8.70¢	per KWH

Minimum Charge

The minimum monthly charge shall be the customer charge.

Metering Adjustment

If service is metered at a voltage greater than 480 volts, the energy measurements shall be decreased by one and one-half percent (1 ½%) to convert such measurements to the equivalent of metering at the Utility's secondary voltage.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Rate PPL – Electric Primary Power and Light Service
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available for any customer contracting for a specified capacity of not less than 50 kilovolt-amperes. Applicant must agree to a one-year term of service and must be located adjacent to an electric transmission line of the Utility that is adequate and suitable for supplying the service required.

Character of Service

Alternating current, sixty Hertz, at any standard polyphase voltage supplied by Utility in the locality for which the service is requested.

Rate *

Customer Charge (Monthly) $100.00

Maximum Load Charge (Monthly)

Each KVA of Billing Maximum Load ---------- $17.64 per KVA

Energy Charge (In Addition to the Maximum Load Charge)

First 300 hours' use of Billing Maximum Load ---------- 3.63¢ per KWH

Over 300 hours' use of Billing Maximum Load ---------- 3.15¢ per KWH

Measurement of Maximum Load and Energy

Maximum load shall be measured by suitable instruments provided by the Utility and in any month the maximum load expressed in kilovolt-amperes shall be the average number of kilowatts in the 30-minute interval in such month during which the energy metered is greater than in any other such 30-minute interval in such month, divided by the average lagging power factor (expressed as a decimal) calculated for the month. For billing purposes, the billing maximum load, shall be the greater of the maximum load occurring during the month or fifty (50) KVA. Energy shall be measured by suitable integrating instruments provided by the Utility.

If service is metered at a voltage of approximately 480 volts or lower, the maximum load measurements shall be increased by one percent (1%) and the energy measurements shall be increased by one and one-half percent (1 ½%) to convert such measurements to the equivalent of metering at the Utility's primary voltage.

Minimum Charge

The minimum monthly charge shall be the customer charge.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Rate OL – Outdoor Lighting Service
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available only for continuous year-round service for outdoor lighting to any residential, farm, commercial or industrial customer located adjacent to an electric distribution line of Utility.

Character of Service

Outdoor Lighting Service using lamps available under this schedule.

Rate *

Type of Lamp	Rate per Lamp per Month
175 watt mercury vapor	$5.12
250 watt mercury vapor	$6.22
400 watt mercury vapor	$8.65
100 watt sodium vapor	$4.38
200 watt sodium vapor	$7.60
400 watt sodium vapor	$13.21
150 watt sodium vapor	$6.23
250 watt sodium vapor	$7.60

Special Contracts	Rate per Lamp per Month
175 watt mercury vapor	$4.89
250 watt mercury vapor	$5.90

When Utility is required to install a pole to provide customer with Outdoor Lighting Service, customer shall be required to pay, in addition to the above charges, $1.55 per month.

Hours of Lighting

All lamps shall burn approximately one-half hour after sunset until approximately one-half hour before sunrise each day in the year, approximately 4,000 hours per annum.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Rate SL – Public Street Lighting Service
(Other Than State Highway Lighting Service)
(Pursuant to the IURC Order in Cause No. 44142 dated _____)

Availability

Available for any standard overhead Public Street Lighting Service.

Character of Service

Public Street Lighting Service using lamps available under this schedule.

Rate *

Type of Lamp	Rate per Lamp per Month
100 watt mercury vapor	$5.81
175 watt mercury vapor	$6.32
250 watt mercury vapor	$7.36
100 watt sodium vapor	$5.18
200 watt sodium vapor	$8.98
400 watt sodium vapor	$15.61
150 watt sodium vapor	$7.36
250 watt sodium vapor	$8.98

City of Ulen	Rate per Lamp per Month
100 watt sodium vapor	$4.76
175 watt sodium vapor	$5.17

Hours of Lighting

All lamps shall burn approximately one-half hour after sunset until approximately one-half hour before sunrise each day in the year, approximately 4,000 hours per annum.

* Subject to the provisions of Appendices A and B.

Municipal Electric Utility

Lebanon, Indiana

Appendix A

Rate Adjustments

The Rate Adjustments shall be on the basis of a Purchased Power Cost Adjustment Tracking Factor occasioned solely by changes in the cost of purchased power and energy, in accordance with the Order of the Indiana Utility Regulatory Commission, approved _____ in Cause No. 44142 as follows:

Rate Adjustments applicable to the below listed Rate Schedules as follows:

Residential Service Rate	RS	$	per kWh
Commercial Service Rate			
Single Phase	CS 10	$	per kWh
Three Phase	CS 30	$	per kWh
Municipal Service Rate	MS	$	per kWh
Primary Power Light Rate	PPL	$	per kVA
		$	per kWh
Small General Power Rate	SGP	$	per kWh
Outdoor Lighting and Street Lighting Rate	OL & SL	$	per kWh

Municipal Electric Utility

Lebanon, Indiana

Appendix B

Rate Adjustments applicable to the below listed Rate Schedules as follows:

Residential Service Rate	RS	$	per kWh
Commercial Service Rate			
Single Phase	CS 10	$	per kWh
Three Phase	CS 30	$	per kWh
Municipal Service Rate	MS	$	per kWh
Primary Power Light Rate	PPL	$	per kVA
		$	per kWh
Small General Power Rate	SGP	$	per kWh
Outdoor Lighting and Street Lighting Rate	OL & SL	$	per kWh

Average Change in Schedule of Rates

Residential Service Rate	RS	$	per kWh
Commercial Service Rate			
Single Phase	CS 10	$	per kWh
Three Phase	CS 30	$	per kWh
Municipal Service Rate	MS	$	per kWh
Primary Power Light Rate	PPL	$	per kVA
		$	per kWh
Small General Power Rate	SGP	$	per kWh
Outdoor Lighting and Street Lighting Rate	OL & SL	$	per kWh

SEP, OCT AND NOV 2012

Municipal Electric Utility

Lebanon, Indiana

Appendix C

Description of Charge	Charge
Bad Check Charge	$15.00
Reconnect/Disconnect Charge	$20.00
Meter Tampering Charge	$20.00
Meter Deposits (Minimum)	$25.00 For Rates RS & CS
After Hours	$35.00 Sunday and Holidays
	$25.00 Monday thru Saturday
Penalty for Late Payment	$3% of Late Payment Amount

Approved pursuant to the IURC Order in Cause No. 40012 dated January 25, 1995.