ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE VERIFIED PETITION OF STUCKER FORK CONSERVANCY DISTRICT FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR WATER SERVICE	)))))	CAUSE NO. 44164 APPROVED: OCT 02 2013

ORDER OF THE COMMISSION

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

On March 13, 2012, Stucker Fork Conservancy District ("Stucker Fork" or "Petitioner"), filed its Verified Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission") in this matter. In its Petition, Stucker Fork requested a bifurcated procedural schedule with the first phase to address the implementation of the final phase of the cost of service study ("COSS") utilized in Cause No. 43780 and the second phase to address Stucker Fork's rates and charges, anticipated bond issue, and a water source capital improvement project.

On March 22, 2012, Morgan Foods, Inc. ("Morgan Foods") filed its Petition to Intervene, which was granted in a March 28, 2012 Docket Entry. The Commission held a prehearing conference on April 12, 2012 and issued a Prehearing Conference Order on April 25, 2012, establishing a procedural schedule for this Cause. On May 11, 2012, Stucker Fork prefiled its direct testimony and exhibits. Shortly after Stucker Fork's prefiling, a discovery dispute arose between Morgan Foods and Stucker Fork concerning requests related to the COSS. The Presiding Officers resolved the discovery dispute in Docket Entries issued on July 11, 2012 and August 1, 2012, specifically finding that neither the Settlement Agreement approved in Cause No. 43780 nor the Commission's April 14, 2010 Order in Cause No. 43780 precluded a challenge to the use of the COSS in this proceeding.

After additional filings by Stucker Fork and Morgan Foods, the Presiding Officers established a revised un-bifurcated procedural schedule in an August 22, 2012 Docket Entry. On November 9, 2012, Stucker Fork filed a Motion to Amend Petition seeking to eliminate its request for approval of an anticipated bond issue and a water source capital improvement project, which was granted on November 30, 2012. Stucker Fork also filed updated direct testimony and exhibits. On January 18, 2013, Stucker Fork filed supplemental direct testimony and a revised accounting report. On February 25, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") and Morgan Foods filed their respective direct testimony and exhibits.

On March 25, 2013, Stucker Fork prefiled its rebuttal testimony and exhibits. Stucker Fork also filed a Motion to Strike Morgan Foods' prefiled testimony and exhibits, which was denied by the Presiding Officers in an April 18, 2013 Docket Entry. On April 19, 2013, Stucker Fork filed its Appeal to the Full Commission ("Appeal") of the April 18, 2013 Docket Entry denying Stucker Fork's Motion to Strike.

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, an evidentiary hearing was held in this Cause on April 23, 2013, at 9:30 a.m. Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Stucker Fork, Morgan Foods, and the OUCC were present and participated. No members of the general rate paying public appeared or sought to testify in the evidentiary hearing.

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

1. **Statutory Notice and Commission Jurisdiction**. Notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner is a conservancy district that has elected to furnish water supply under Ind. Code ch. 14-33-20. Pursuant to Ind. Code § 14-33-20-14, the Commission has jurisdiction over changes to a district's rates and charges for water service. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics**. Stucker Fork is a conservancy district, duly established by an April 9, 1964 Order of the Scott County Circuit Court for the purpose of providing water supply service to customers within its service area. Stucker Fork uses wells and surface water, water treatment and transmission facilities, elevated storage tanks, land, land rights, equipment, approximately 950 miles of distribution mains and other property to provide service to approximately 7,558 customers located in Scott, Jefferson, Jackson, Jennings, Washington and Clark Counties. Stucker Fork's existing rates and charges were established by the Commission's April 14, 2010 Order in Cause No. 43780 ("43780 Order").

3. **Relief Requested**. Stucker Fork requests approval to adjust its rates and charges for water service and to further eliminate subsidies among Stucker Fork's various customer classes in accordance with the Settlement Agreement ("2010 Settlement Agreement") approved by the Commission in its 43780 Order. Stucker Fork proposes to increase its revenue requirement by 17.9% or $615,221, for a total net revenue requirement of $4,044,181.

4. **Test Year**. The test year for determining Stucker Fork's actual and pro forma operating revenues, expenses and operating income under present and proposed rates is the twelve months ended June 30, 2012, adjusted for changes that are fixed, known and measurable for ratemaking purposes and that occur within the twelve months following the end of the test year.

5. **Appeal to the Full Commission**. On March 25, 2013, Stucker Fork filed a Motion to Strike Morgan Foods' prefiled testimony and exhibits arguing that Morgan Foods is

precluded by *res judicata* from challenging Stucker Fork's use of the COSS. The Presiding Officers denied Stucker Fork's Motion in an April 18, 2013 Docket Entry, finding the doctrine of *res judicata* did not apply in this instance, because ratemaking is a legislative function as opposed to a judicial function. *See N'ern Ind. Pub. Serv. Co. v. U.S. Steel Corp.,* 907 N.E.2d 1012, 1018 (Ind. 2009) citing *Pub. Serv. Comm'n v. City of Indianapolis,* 131 N.E.2d 308, 312 (Ind. 1956) ("ratemaking is a legislative, not a judicial function"); *Ind. Gas Co., Inc. v. Office of Util. Consumer Counselor*, 610 N.E.2d 865, 869 (Ind. App. 1993) ("...res judicata principles apply when an administrative agency acts in a judicial capacity, but do not apply when the agency acts in a legislative capacity.") Stucker Fork filed an Appeal to the Full Commission of the April 18, 2013 Docket Entry.

In accordance with the 43780 Order, Stucker Fork asserted that consumer usage characteristics have not significantly or materially changed and therefore utilized the COSS in this proceeding. None of the parties have challenged Stucker Fork's authority or right to use the COSS and the Commission has not prohibited Stucker Fork from relying upon it in this proceeding. Rather, the Presiding Officers determined that because ratemaking is a legislative function, the doctrine of *res judicata* does not apply and the parties may challenge the reasonableness of relying upon that COSS in establishing the rates and charges requested herein. This conclusion is further supported by the Commission's decision in *Richmond Power & Light*, Cause No. 40434 (IURC March 19, 1997) concerning the precedential effect of settlement agreements, as well as the Settlement Agreement itself, which expressly provides that it is without prejudice to and does not constitute a waiver of any position to be taken by a party in a future regulatory proceeding.

The Commission's decision in *Northern Indiana Public Service Company*, Cause No. 42150 ECR 19 (IURC Aug. 15, 2012) is inapposite. In that case, an Intervenor sought to require the use of the cost allocation methodology approved in Cause No. 43969, despite the fact that the Commission's December 20, 2012 Order in that Cause specifically stated that the cost allocation methodology to be used in the utility's environmental tracker would be determined in the next tracker proceeding. The Commission, in its August 15, 2012 Order on Reconsideration in Cause No. 42150 ECR 19, found that because the Intervenor did not object to the Commission's December 20, 2012 Order deferring the issue on cost allocation methodology, it was precluded from raising that issue in the tracker proceeding. In this case, Morgan Foods is not arguing that Stucker Fork cannot utilize the COSS or should have been required to conduct a new COSS. Rather, Stucker Fork is merely taking issue with the appropriateness of relying upon the COSS to establish Stucker Fork's rates and charges in this Cause.

Accordingly, we uphold the Presiding Officers' ruling denying Stucker Fork's Motion to Strike.

6. **Stucker Fork's Direct Evidence**.

A. **Richard A. Burch**. Mr. Burch, Senior Project Engineer with Midwestern Engineers, addressed Stucker Fork's current water supply and distribution system and its anticipated capital needs to meet the demand for water supply in its service area. Mr. Burch

described how his firm has assisted Stucker Fork since its inception in the 1960's. He testified that Stucker Fork's current service territory includes 210 square miles and 7,558 residential, agricultural, commercial, wholesale, and industrial customers.

Mr. Burch described Stucker Fork's reliance upon two sources of water supply—a surface water supply system that originates from the Muscatatuck River and a ground water supply system located at Marble Hill just west of the Ohio River in Jefferson County, Indiana. He testified that although Stucker Fork has experienced a slight decrease in customers since its last rate case, he expressed concern that Stucker Fork's surface water supply system would not have sufficient capacity to meet the continuing demand for water in its service area, especially if the area were to experience drought conditions. Mr. Burch explained that Stucker Fork is experiencing increased costs in producing and treating water from its surface water supply system, and expressed his belief that more stringent testing and water quality requirements would increase the gap between the costs of producing water from Stucker Fork's surface water supply system as compared to its ground water system. Mr. Burch noted that in Cause No. 43870 Stucker Fork had calculated that it was almost four times as expensive to produce water from its surface water supply as compared to its groundwater supply. Due to concerns with the lack of an adequate source of supply, the increased cost of operating a surface water system, and the need for redundancy, Mr. Burch testified that Stucker Fork has been searching for alternative groundwater supplies.

Mr. Burch noted that Morgan Foods is Stucker Fork's largest user of water and that its demand has steadily increased over the years. He explained that over the past 15 years Morgan Foods has migrated from using Stucker Fork only as a backup supply to now using Stucker Fork as its sole source of supply. He testified Morgan Foods' usage has steadily expanded to the point where Morgan Foods now uses an average of approximately 1.2 million gallons per day ("MGD") and is almost 30% of Stucker Fork's total usage. Mr. Burch stated that absent Morgan Foods' expanded usage, Stucker Fork would be able to serve most of its customers with water from its less expensive groundwater supply. He also noted that, to date, Stucker Fork has not charged customers using the more expensive surface water supply, such as Morgan Foods, a different or higher rate than those customers using the groundwater supplies.

Mr. Burch explained Petitioner's concern with the risk associated with serving Morgan Foods' expanded usage. He stated that the size of, and need for, certain improvements are dictated by Morgan Foods' continued usage. Over the years Morgan Foods has threatened to re-commission its water plant and significantly reduce its water usage from Stucker Fork's system. Mr. Burch stated that Stucker Fork is concerned about the potential impact on, and risk to, Stucker Fork's remaining customers if additional facilities necessary to serve Morgan Foods were built and then Morgan Foods disconnected from Stucker Fork's system, went out of business, relocated its facilities or downsized.

Mr. Burch described Stucker Fork's recent efforts to find an alternative source of water supply in Jackson County. He stated that absent obtaining an adequate source of groundwater supply, Stucker Fork will be required to comply with the Environmental Protection Agency's Service Water Rule ("EPA Surface Water Rule"), which requires all public systems that use

surface water supply to meet heightened or restricted standards for the removal or inactivation of cryptosporidium and giardia in their source water. Mr. Burch stated that the deadline for meeting the more restrictive limits is September 30, 2013; however, Stucker Fork may be able to obtain a two year extension if significant construction is required.

Finally, Mr. Burch sponsored Stucker Fork's capital improvement plan. Mr. Birch described the process he used to develop the plan, and identified the capital improvements to be completed and the estimated cost of each. He testified as to his belief that each of the capital improvements is reasonable and necessary in order to provide safe, efficient service to customers.

B. John M. Seever. Mr. Seever, a Certified Public Accountant and partner at H.J. Umbaugh and Associates, testified concerning Stucker Fork's proposal to adjust its rates and charges. As background, he explained that in Cause No. 42752, the Commission approved Stucker Fork's COSS and authorized Stucker Fork to "phase-in" the result of the COSS to avoid rate shock for Stucker Fork's large volume wholesale and industrial users. In Stucker Fork's next rate case, Cause No. 43780, Stucker Fork presented a new COSS using the same methodology approved by the Commission in Cause No. 42752. Mr. Seever testified that pursuant to a January 20, 2010 Settlement Agreement with the OUCC ("2010 Settlement Agreement"), which was ultimately approved by the Commission in its 43780 Order, Stucker Fork was required to use that COSS as the basis for making a final move to cost based rates in its next rate case. Mr. Seever testified that he determined Petitioner's consumer usage characteristics have not materially changed from its last rate case and therefore used the COSS as the basis to eliminate the remaining rate subsidies between Petitioner's customer classes.

Mr. Seever sponsored an Accounting Report dated November 9, 2012 ("Accounting Report") that his firm prepared for Petitioner. He explained the Accounting Report was divided into three sections. The first section contains pro forma financial information for the twelve months ending June 30, 2012, which was the test year in this case. The second section of the Accounting Report contains the fully allocated cost of service as approved in the 43780 Order and the resulting rates and charges. And, the third section contains additional unaudited financial information regarding sales twelve months ending March 31, 2009, and comparative financial information for the three calendar years ending December 31, 2009, 2010, 2011, and the twelve months ending June 30, 2012.

Mr. Seever explained that pages 6 – 13 of the Accounting Report present the pro forma annual cash operating expenses, including adjustments to test year expenses that have been made for fixed, known, and measurable items. He stated that test year cash operating expenses had been adjusted to reflect the cost of payroll adjustments, employee benefits, and insurance, among others. In addition, the test year cash operating expenses of $2,343,012 had been increased by $138,759 to arrive at pro forma annual cash operating expenses of $2,481,771. Mr. Seever also noted that Stucker Fork anticipated spending nearly $4,800,000 in capital improvements over the next five year period as part of its capital improvement plan.

Mr. Seever stated that Stucker Fork's pro forma revenue requirements were summarized on page 15 with explanations of the adjustments appearing on page 16. He explained the revenue

requirements had been adjusted to incorporate Stucker Fork's adjusted operation and maintenance expenses, and the average debt service on the outstanding bonds had also been included. Finally, an allowance for extensions and replacements equal to Stucker Fork's capital improvement plan was included, resulting in a total revenue requirement of $4,248,588. Mr. Seever then reduced the revenue requirement by test year interest income, penalties, and other income, resulting in a net revenue requirement of $4,134,444. Mr. Seever concluded that in order to provide sufficient revenues for Stucker Fork to meet its pro forma annual revenue requirement, Stucker Fork's annual revenues would need to be increased by $705,484 or approximately 20.6%.

Mr. Seever testified that his report includes a meter replacement program that was mandated by the 43780 Order. He also noted that the capital improvements included in his Accounting Report originated from the Stucker Fork Board, General Manager, and its consulting engineers, who evaluated and determined the capital improvements that needed to be completed in order for Stucker Fork to continue to provide safe and efficient service.

In supplemental direct testimony, Mr. Seever sponsored a Revised Accounting Report. He explained that Stucker Fork issued new Waterworks Refunding Revenue Bonds ("Refunding Bonds") on December 18, 2012. The Refunding Bonds refunded or paid off Stucker Fork's outstanding indebtedness with the United States Department of Agriculture – Rural Development. By issuing the Refunding Bonds, Stucker Fork was able to achieve a savings that reduced Stucker Fork's prospective principal and interest payments by approximately $90,000 per year. Mr. Seever stated that this savings has reduced the amount of Stucker Fork's proposed rate increase from 20.6% to 17.9%.

7. **OUCC's Direct Evidence**.

A. **Richard J. Corey**. Mr. Corey, a Utility Analyst for the OUCC, testified concerning Petitioner's proposed revenue requirements. He explained generally how rates are determined for a conservancy district under Ind. Code § 14-33-20-13. Mr. Corey sponsored a series of schedules showing a comparison of Stucker Fork's and the OUCC's proposed revenue requirements, comparative balance sheet, comparative income statement, a pro forma net operating income statement, expense adjustments, extensions and replacements, and debt service. Mr. Corey stated that he accepted Stucker Fork's adjustments for purchase power, salaries and wages, capital and non-recurring items, rate case expense, and employee benefits.

With regard to expense adjustments, Mr. Corey testified that the OUCC recommended several adjustments be made to periodic maintenance expense, including the annual allowance for tank painting, well maintenance and intake cleaning expense for the reasons articulated by Mr. Rees. Mr. Corey also recommended eliminating the expenses of $257 for a Thanksgiving dinner and $287 for the cost of flowers, as not essential to the provision of utility service. Adjustments to extensions and replacements ("E&R") were also made by Mr. Corey based upon recommendations from Mr. Rees.

Mr. Corey also disagreed with Stucker Fork's use of the average annual debt service for the thirteen bond years ending January 1, 2026. He stated that it is more appropriate to calculate the debt service requirement by averaging the debt service over the anticipated five year life of the rates being requested.

Finally, Mr. Corey noted that Stucker Fork has a policy of requiring subsequent tenants or property owners to pay the outstanding balance of a predecessor tenant's or property owner's bill before new water service is provided. Mr. Corey testified that the settlement agreement approved by the Commission in Cause No. 42752 provides that Petitioner will revise its existing bad debt rules to comply with Commission standards. Mr. Corey stated Petitioner has not revised its rules and therefore the OUCC is requesting the Commission order Petitioner to do so. He stated Petitioner should not be allowed to cherry pick the terms of a settlement that it will comply with and that the OUCC believes Petitioner's rules are unfair to new tenants who may be required to pay the outstanding bills of past tenants to obtain water service.

B. Harold L. Rees. Mr. Rees, a Senior Utility Analyst with the OUCC, described Stucker Fork's system as being in generally good condition. Mr. Rees noted, however, that Stucker Fork had identified several maintenance issues that needed to be addressed. First, Stucker Fork has unwrapped ductile iron mains, thin-walled PVC mains, and plastic service lines that have experienced significant breakage, which the utility been working to replace. In addition, Mr. Rees noted that Stucker Fork had agreed in the 2010 Settlement Agreement to develop a plan and funding proposal to replace an older version of radio-read meters that never met Stucker Fork's expectations.

Addressing Petitioner's proposed improvements, Mr. Rees stated that a comparison of the proposed E&R projects in this case to those from Cause No. 43780 reveals significant overlap, a lack of clarity and apparently requests double recovery. Mr. Rees recommended disallowing $2,400,000 for the 16 inch pipe replacement, service line replacement, and fire hydrant installation because Petitioner failed to provide sufficient justification for including these projects that were also included and approved in the 43780 Order. He stated Petitioner failed to explain whether the scopes of the proposed projects differ from those approved in the 43780 Order and whether the amount sought for the projects was the uncollected amount or additional amounts.

Mr. Rees also objected to Stucker Fork's proposal to fund two of its projects through rates that Petitioner had previously agreed to fund with cash on hand in Cause No. 43780. The first was a 12,500 linear foot pipe replacement project on Goshen Road/Plymouth Road from the prior case that was described in the present case as being a pipe replacement along Goshen Road/Plymouth Road/Lover's Lane at a new cost of $738,000, a $363,000 increase from the prior case. The second was the Radio Tower Road project. Mr. Rees also noted that Petitioner currently has about $3,000,000 cash, but has not completed three of the cash-funded capital improvements agreed to in Cause No. 43780.

Mr. Rees recommended approval of only the meter replacement program agreed to in the 2010 Settlement Agreement and Stucker Fork's share of a water main relocation associated with

a mandatory Highway 257 widening required by the Indiana Department of Transportation ("INDOT"). Mr. Rees recommended the Commission deny funding for all other capital improvements which reduced the amount of Stucker Fork's capital improvement plan from $4,797,250 to $1,659,250.

With respect to Stucker Fork's proposed operating and maintenance expenses, Mr. Rees stated that Stucker Fork's well maintenance should be increased from $6,000 per year to $7,500 per year due to the addition of the fifth well in 2011. He recommended Petitioner's intake cleaning be increased from $1,500 per year to $3,000 per year to allow for more frequent cleaning. He also recommended that tank painting expense be decreased from $16,667 per year to $10,000 per year due to the fact that the Marble Hill Tank is a ground storage tank and should be less costly than an elevated tank.

Finally, Mr. Rees testified that Stucker Fork is meeting the Indiana Department of Environmental Management's requirements regarding water quality, has developed a plan to reduce water loss from leaks, and has yet to develop a plan for making improvements necessary to meet the EPA Surface Water Rule. He also recommended that Stucker Fork provide a written Water Conservation Plan and create goals to regularly disseminate the Plan to customers and the public.

8. Morgan Foods' Direct Evidence. Mr. Kerry A. Heid, an independent rate consultant, addressed several problems he had with Petitioner's COSS and recommended the Commission reject its use to establish rates. First, he noted that Stucker Fork's COSS lacked any demonstration of the dollar or percentage increase it is proposing for each retail customer class. Mr. Heid, however, performed his own revenue proof demonstrating that Stucker Fork's proposed rates will generate additional revenues of $622,187, an increase over present rates of 17.7%.

Next, Mr. Heid testified that Stucker Fork's COSS misclassifies the City of Scottsburg's municipal water utility ("Scottsburg") as an industrial customer when, in fact, it is a wholesale class customer. Mr. Heid stated that the only relevant customer characteristics in determining the proper customer classification are the end use characteristics of the customer, which in this case clearly demonstrates that Scottsburg is a wholesale customer (*i.e.*, a sale for resale) and not an industrial customer. He stated because Scottsburg is one of Petitioner's ten largest customers, misclassifying Scottsburg creates a major error that invalidates the results of the COSS.

With respect to equivalent meters, Mr. Heid stated that Stucker Fork erroneously utilized an equivalent meter factor of 1.0 for the wholesale customer class. Given that the wholesale customers have meters larger than a 5/8 inch, Mr. Heid stated that this results in an erroneous calculation for the equivalent meters. He stated that the use of an erroneously low equivalent meter factor for the wholesale class will result in an under-allocation of costs to the wholesale class and an over-allocation of costs to the remaining customers.

Mr. Heid also disagreed with Stucker Fork's maximum day and maximum hour functional cost allocation factors. Mr. Heid stated that the functional cost allocation factors

should be based on a review and analysis of the system coincident peak maximum day and maximum hour demands, rather than the weighted average of the customer class non-coincident peak day and peak hour demands used by Petitioner. However, because Stucker Fork did not maintain maximum hour pumpage records, Mr. Heid recommended accepting Stucker Fork's functional cost allocation factors for this case. He also recommended Stucker Fork be required to gather and maintain maximum hour pumpage records to be utilized in preparing a COSS in its next rate case.

Mr. Heid next testified that Stucker Fork's COSS fails to differentiate between small and large volume customers, resulting in an over-allocation of costs to large volume users. He stated that large volume customers, such as Morgan Foods and wholesale customers, tend to be served directly from large transmission mains and do not use smaller distribution mains; whereas, smaller customers are typically served by both larger transmission mains and smaller distribution mains. Mr. Heid stated that Mr. Seever's approach of reflecting all costs in the "allocable to all customers category" erroneously assumes that all customers use all of the same facilities. He stated that he had analyzed the main sizes on which larger customers were served and concluded that 12 inch and larger mains constitute transmission mains and mains smaller than 12 inches in diameter constitute distribution mains. Mr. Heid noted that Petitioner did not maintain records showing the cost of different sized mains in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts for Water Utilities, and therefore allocated cost based upon the diameter weighted lengths of mains to determine the percentage of mains classified as transmission compared to those classified as distribution.

Mr. Heid also testified that Morgan Foods should be treated as its own customer class because Morgan Foods is not homogenous with the remaining customers in the industrial class. He stated that larger industrial customers generally have lower capacity factors, higher average annual usage, and are generally served directly from transmission mains rather than distribution mains.

With respect to the capacity or peaking factors, Mr. Heid stated that the COSS incorrectly relies upon the capacity factors from the American Water Works Association's M1 Water Rates Manual ("AWWA Manual"), which are only examples and not generally accepted industry standards. Mr. Heid stated that neither Mr. Seever nor Mr. Burch conducted the type of analysis necessary to determine the appropriate capacity factors. However, because Stucker Fork lacked monthly usage information by customer class, Mr. Heid recommended the Commission accept Petitioner's capacity factors with two exceptions. First, he stated that the wholesale customer class capacity factor should be corrected to be 225% for the maximum day capacity factor and 375% for the maximum hour capacity factor. Second, he recommended that the large industrial class, which is not represented in the AWWA Manual, have a maximum day capacity factor of 130% and a maximum hour capacity factor of 175%.

Mr. Heid next addressed his concern with Petitioner's use of the Maine methodology set forth in the 4th edition of the AWWA Manual to determine the cost of fire protection. His concerns included the following: the Maine methodology estimates public fire protection costs, not private fire protection costs; the AWWA Manual makes clear that the Maine methodology

should only be used when a full COSS is not performed; and the Maine curve used in the 4th edition differs from the current Maine curve and the 6th edition of the AWWA Manual. Mr. Heid testified the Maine methodology is not endorsed by the AWWA or universally accepted, nor could he find a single instance of its use in Indiana. Mr. Heid recommended using the Insurance Service Office's ("ISO") needed fire flow requirements in the COSS because its ties the cost allocation to the design basis. Mr. Heid also noted that Stucker Fork's last fire hydrant flow tests were performed approximately eighteen years ago, which he believes demonstrates poor operating practices. He stated it is important to periodically test all fire hydrants to determine capabilities in the event of an actual fire and to discover any potential problems.

Finally, Mr. Heid sponsored Exhibit KAH-2, which contains a COSS that he prepared and reflects his corrections to Petitioner's COSS. Schedule 12 of Exhibit KAH-2 summarizes the rate impact on the various customer classes of his proposed adjustments.

9. **Stucker Fork's Rebuttal Evidence**.

A. **Richard A. Burch**. Mr. Burch addressed the current status of Stucker Fork's ongoing efforts to find an alternative source of groundwater supply. Reiterating the higher cost to produce water from its surface water supply, Mr. Burch explained that Stucker Fork's efforts to find groundwater in Jackson County was unsuccessful. He stated Stucker Fork was now focusing its efforts on expanding its source of supply from its existing Marble Hill water facility in Jefferson County, Indiana. Stucker Fork has authorized Mr. Burch to prepare preliminary estimates to determine the cost and feasibility of developing more wells, expanding its treatment capacity from 4 MGD to 8 MGD, and constructing a transmission main to transport additional water from Jefferson County. Mr. Burch stated the probable cost to construct a new well, increase pump capacity from the existing wells, and expand the water treatment plant from 4 MGD to 8 MGD would be approximately $5.3 million. He estimated the cost to construct facilities to transmit the water from the expanded water treatment plant to its distribution system would be $25.2 million. Mr. Burch stated that the study, planning, and construction of new water facilities would exhaust Stucker Fork's cash on hand.

Mr. Burch also addressed the OUCC's concern regarding the 16 inch ductile iron pipe replacement project that was included in the capital improvement plan in this case and Cause No. 43780. He stated that Stucker Fork's request is not duplicative, but simply an expansion of the 26,000 foot pipe replacement project described in Cause No. 43780. After discovering significant corrosion from acidic soil on portions of the pipe that had been replaced and due to a number of water leaks in other areas of the 16 inch pipe, Stucker Fork determined it appropriate to expand the replacement program from the original five mile replacement to include the entire 15 mile section where the pipe is located. Mr. Burch noted that Stucker Fork has completed almost 9,300 feet of 16 inch pipe replacement and is only beginning year three of the five-year capital improvement plan approved in Cause No. 43780. He also stated that, based on current construction prices, he anticipates Stucker Fork will expend approximately $75 per linear foot to replace the existing 16 inch pipe.

Mr. Burch stated that the pipe replacement project will prevent future corrosion, limit future main breaks and boil water orders, and ultimately allow for improved service and a reduction of lost water. He stated if the Commission accepted the OUCC's recommendation to provide zero funding, Stucker Fork would be required to abandon the partially completed project and leave a key component of Stucker Fork's transmission system in an unreliable state, which would likely lead to more main breaks and down time for the Marble Hill groundwater plant and increased water production costs.

Mr. Burch next addressed the OUCC's proposal to eliminate the entire cost of the service line replacement project from Stucker Fork's capital improvement plan. Mr. Burch stated that, like the 16 inch pipe replacement, the OUCC does not appear to question whether the project should be completed, but rather that it has not been completed as quickly as originally anticipated. In Cause No. 43780, Stucker Fork estimated that it would replace 500 service lines as they failed over a five year period. He stated, during the first three years of the capital improvement plan, Stucker Fork has been fortunate and only had to replace approximately 25 – 50 service lines per year. Mr. Burch stated that given the age of the service lines in question, Stucker Fork expects that the number of failures will increase, and at a faster rate, thus requiring greater replacements. Without funds to make service line replacements, Mr. Burch expressed concern that Stucker Fork's lost water would increase, water pressure to individual customers could be marginalized, and service quality would be jeopardized.

In response to concerns raised by Mr. Rees on the Goshen Road/Plymouth Road project, Mr. Burch explained that Stucker Fork has expanded the project to include additional main replacement along Lover's Lane for a total of 18,500 feet. He stated the addition of approximately 6,000 linear feet to the project and increased installation and materials costs have caused the total estimated cost of the project to rise by $363,000. Mr. Burch explained Stucker Fork is now facing two long-term projects (*i.e.*, the groundwater project and EPA Surface Water Rule project) that were not contemplated in Cause No. 43780. Mr. Burch stated that due to the relatively small size of the Goshen Road/Plymouth Road/Lover's Lane project, the need to continue to reduce water loss, and the timing for completion of the project, Stucker Fork now believes it is more appropriate to include this project in the capital improvement plan and use its cash on hand for the planning and construction of the groundwater and EPA Surface Water Rule projects.

Mr. Burch disagreed with Mr. Rees' proposal to eliminate funding for all capital improvements except the mandated meter replacement program and INDOT relocation project. Mr. Burch stated that he believed the OUCC's position to be inconsistent with the 2010 Settlement Agreement which approved funding for these projects, especially when Stucker Fork is less than three years into the previously-approved five-year capital improvement plan. Mr. Burch noted there have been a number of capital improvements completed that were not considered or contemplated when preparing the capital improvement plan in Cause No. 43780 that have diverted manpower and financial resources. He also noted that neither the current groundwater nor the EPA Surface Water Rule projects were contemplated in Cause No. 43780, and that payment for both of these projects will exhaust Stucker Fork's cash on hand.

Consequently, he expressed concern that acceptance of the OUCC's position would jeopardize Stucker Fork's ability to provide safe and efficient service to its customers.

With respect to hydrants, Mr. Burch stated that Stucker Fork requested and received approval to install ten hydrants in Cause No. 43780, but to date has only installed two. During discovery Stucker Fork determined that it only needs to install four of the additional eight hydrants. Therefore, Mr. Burch stated the capital improvement plan should be adjusted to include only four additional hydrants.

Mr. Burch also addressed certain portions of Mr. Heid's testimony. First, Mr. Burch disagreed that the COSS misclassified Scottsburg as an industrial customer. He stated that Stucker Fork considered Scottsburg's general service characteristics, facility requirements, and demand patterns, which he believed is consistent with the AWWA Manual. He said based on these considerations, Scottsburg is more like an industrial customer than Stucker Fork's wholesale customers. He explained that Stucker Fork's system is set up in distinct pressure zones and regulates the flow to wholesale users by installing and using orifice control devices at the meters of its large wholesale customers. These flow control devices limit the flow rate to the wholesale customers and allow Stucker Fork to avoid building or setting aside facilities to meet their peak demands. Although Scottsburg has its own source of supply, Mr. Burch stated that Scottsburg from time to time experiences problems and needs that require significant demand on, and peaking from, Stucker Fork's facilities. Mr. Burch sponsored a graph depicting the demand patterns from Scottsburg, Morgan Foods, and Stucker Fork's wholesale customers. Mr. Burch also noted that Stucker Fork's contract with Scottsburg treats Scottsburg as a retail customer for rate purposes.

Next, Mr. Burch disagreed with Mr. Heid's testimony regarding the classification of transmission and distribution mains and their use by small and large volume customers. Mr. Burch testified that, consistent with the AWWA Manual, Stucker Fork prepared a system map delineating its distribution and transmission system. He stated he looked to the function of the main to determine whether it was a transmission or distribution main. If the main transmitted water through the distribution system and the various pressure zones within that system, then it was determined to be a transmission main; and a main for transmitting water for distribution to the users of the system was considered to be a distribution main. Mr. Burch stated the map shows that Stucker Fork has a number of mains that are less than 12 inches in diameter that function as transmission mains and mains that are 12 inches in diameter that function as distribution mains. Thus, Mr. Heid's allocation of costs based on pipe diameters is in error and cannot be considered reliable.

Third, he also disagreed with Mr. Heid's conclusion that Morgan Foods does not benefit from lines of less than 12 inches in diameter. Mr. Burch stated that the Morgan Foods' facility is located in the Austin pressure zone, which consists of many interconnected pipes ranging in diameter from four inches to twelve inches. He stated the interconnectedness or "looping" of the water mains in the Austin pressure zone allows Stucker Fork to reinforce its system, offer improved service, and better quality for all its customers, including Morgan Foods.

Mr. Burch also disagreed with Mr. Heid's recommendation that Stucker Fork maintain records showing the cost of its mains based on size and type. He stated that like many smaller, rural utilities, Stucker Fork does not maintain such records, or have the personnel or assets to generate and maintain them. He said such a requirement would be unduly expensive and cause an unnecessary increase to Stucker Fork's rates.

With regard to Mr. Heid's selection of capacity factors for the wholesale users and Morgan Foods, Mr. Burch stated that the AWWA Manual does not contemplate that a water provider will regulate and eliminate peaking from wholesale users via the use of flow control devices. For this reason, Stucker Fork believes it reasonable to lower the wholesale capacity factors from 225% to 150%. Mr. Burch stated that based on the consumer usage characteristics, Stucker Fork's wholesale customers may be entitled to a lower capacity factor than the industrial users. Mr. Burch disagreed with Mr. Heid's proposal to reduce the capacity factor for Morgan Foods. He stated that there is no evidence supporting a lower capacity factor for Morgan Foods, especially when considering that Morgan Foods' usage is erratic and the peaks and valleys are much greater than with Stucker Fork's wholesale customers.

Finally, Mr. Burch disagreed with Mr. Heid's statements regarding fire protection. He explained that, as a rural system financed through Rural Development, Stucker Fork's facilities were not designed to provide fire protection service. However, after assuming ownership and operation of water facilities in the City of Austin ("Austin"), Stucker Fork continued fire protection service within the Austin municipal limits for a nominal fee. He disagreed with Mr. Heid's calculation of fire protection costs, which is based on the assumption that Stucker Fork can provide flows of 1,000 gallons per minute, because Stucker Fork's flows are in many areas limited to 250 to 500 gallons per minute. Consequently, he concluded that Mr. Heid's calculation of public and fire protection costs is based on an incorrect assumption and cannot be considered reliable.

B. John M. Seever. Mr. Seever responded to the OUCC's proposed accounting adjustments, as well as Mr. Heid's testimony. He began by indicating that Stucker Fork could agree to the OUCC's adjustments for tank painting, the Thanksgiving Dinner, cost of flowers, well maintenance, and intake cleaning expenses. Mr. Seever, however, expressed concern with the OUCC's proposal to eliminate additional funding for all capital improvements except the meter replacement and INDOT relocation projects. Mr. Seever testified this would place a significant financial strain on Stucker Fork and jeopardize its ability to meet state and federal mandates, as well as the capital needs of the utility. Mr. Seever stated that if the Commission were to accept the OUCC's proposal, Stucker Fork would have two options. First, Stucker Fork could suspend all capital improvements not specifically authorized in this case, which would likely jeopardize the quality of Stucker Fork's service. Alternatively, Stucker Fork could complete the capital improvements. But, he stated, without adequate funding, the utility would quickly exhaust its cash on hand, be unable to meet state and federal mandates, and eventually become financially insolvent and unable to operate.

Mr. Seever stated that he disagreed with the OUCC's contention that Stucker Fork has collected funds for capital improvement for which there has not been an equal or greater expense.

From the end of the test year in Cause No. 43780 to the end of the test year in this Cause, Stucker Fork's cash investment balances have decreased by more than $750,000. For the six months ended December 31, 2012, Stucker Fork's cash investment balances decreased by an additional $350,000. He testified that not only has Stucker Fork's cash investment balances decreased by almost $1.1 million over the last three years, Stucker Fork now faces a more expensive alternative for a supplemental source of groundwater supply and a potentially expensive project to ensure compliance with the EPA Surface Water Rule.

With regard to Mr. Corey's testimony concerning Stucker Fork's bad debt rules, Mr. Seever explained that for all businesses, including rental properties, Stucker Fork treats the property owner as the customer. When the property owner or any authorized tenant is located on the property and the property owner or the tenant does not pay the bill, the property owner is held responsible for the bill. Mr. Seever stated he believes that Stucker Fork's policy is consistent with the Commission's rules.

Next, Mr. Seever explained his understanding of the 2010 Settlement Agreement and the requirement that Stucker Fork use the COSS utilized in Cause No. 43780 as the basis for establishing rates in this Cause absent significant material changes in Stucker Fork's consumer usage characteristics. Mr. Seever testified that neither the OUCC, nor Morgan Foods presented any evidence indicating that there has been a "significant material change in Stucker Fork's consumer usage characteristics" from Cause No. 43780 to the present Cause. Therefore, Mr. Seever opined that the prerequisite for challenging the COSS has not been met and Mr. Heid's testimony regarding the COSS should not be considered by the Commission.

Mr. Seever explained that Stucker Fork did not prepare a comparison of present to proposed revenues by customer class because the 2010 Settlement Agreement requires Stucker Fork to use the COSS utilized in Cause No. 43780. He stated if Stucker Fork had updated the data and used that analysis, then it arguably would have been in violation of the 2010 Settlement Agreement. Mr. Seever further testified that Mr. Heid's calculation of present revenue by class appears to be incorrect because it uses an incorrect amount for the current test year revenues for sales of water.

Regarding Scottsburg's customer classification, Mr. Seever agreed with Mr. Burch that the demand on Stucker Fork's system from Scottsburg and Scottsburg's usage characteristics are more similar to Stucker Fork's industrial customers, not Stucker Fork's wholesale customers. However, he noted that the same capacity factors were assigned to both the wholesale and industrial classes.

Mr. Seever agreed with Mr. Heid that Stucker Fork's equivalent meter factor calculation under-allocates costs to the wholesale customer and over-allocates costs to all other customer classes. However, he stated that he believes the calculation to be consistent with the intent of the wholesale agreements and noted that the largest amount of subsidy for any one class is barely one half of 1%. Mr. Seever recommended the Commission simply disregard the testimony on this issue as immaterial.

Mr. Seever recommended the Commission reject Morgan Foods' recommendation that Stucker Fork be required to collect, maintain, and analyze more data so a more detailed analysis of functional cost allocation factors can be done in future cases. Mr. Seever stated this recommendation would, at a minimum, require Stucker Fork to upgrade its software and computer equipment and hire new personnel. He stated that Morgan Foods' recommendation would not improve service or allow Stucker Fork to better serve customers in need, but would require Stucker Fork to incur additional costs and increase rates with no indication that the COSS results would be materially different.

With respect to allocating cost between small and large volume customers, Mr. Seever testified that because Stucker Fork is divided into pressure zones in which the smaller and larger lines are looped, Stucker Fork has taken a communal approach to cost allocation in that small and large volume users share in the cost of operating and maintaining Stucker Fork's lines regardless of line size. Mr. Seever explained how the communal approach to cost allocation benefits all customers including Morgan Foods who utilizes the more expensive surface water supply. Mr. Seever noted that the AWWA Manual authorizes imposing the higher cost of producing surface water on Morgan Foods and the Austin pressure zone. However, he stated the Stucker Fork Board would prefer to continue its current communal approach to cost allocation and not be required to expend ratepayer funds to collect, maintain, and analyze data that does not better enable Stucker Fork to accomplish its mission of serving rural customers in need at the lowest possible cost.

Mr. Seever testified that Morgan Foods has specifically benefitted from Stucker Fork's current cost allocation approach. Since Morgan Foods began using Stucker Fork as its exclusive source of water supply, its usage and demand on Stucker Fork's system has increased dramatically. He stated if not for Morgan Foods' expanded usage, Stucker Fork could serve almost all of its customers from its groundwater supply and the scope of Stucker Fork's capital improvements would be greatly reduced. Mr. Seever testified that smaller utilities often do not have the revenues or economies of scale to justify a large expense for the computers, software, and manpower necessary to generate the data and reports recommended by Morgan Foods in this case. He also noted that the Commission has regularly approved cost of service studies using similar data presented by Stucker Fork in this case.

Responding to Morgan Foods' proposed revisions to Stucker Fork's capacity factors, Mr. Seever stated that because Stucker Fork regulates the flow from its wholesale customers, such customers should have a capacity factor that is less than the factor set forth in the AWWA Manual. In addition, based on the usage characteristics of, and demand from, Morgan Foods, Mr. Seever stated it would be inappropriate for Morgan Foods to receive a capacity factor that is less than the wholesale class.

Mr. Seever also disagreed with Mr. Heid's proposal to create a separate customer class for Morgan Foods for two reasons. First, although Morgan Foods claims that it is served directly from a transmission main rather than a distribution main, Mr. Burch testified this was not correct. Second, Morgan Foods claims that its usage is 2 ½ times larger than all remaining industrial

customers' usage combined. However, Mr. Seever testified that Morgan Foods' usage is approximately two times greater than Pepsi; therefore, Morgan Foods' usage mathematically cannot be 2 ½ times greater than Pepsi, Scottsburg, and the other industrial customers combined.

Finally, Mr. Seever disagreed with Mr. Heid's determination and allocation of fire protection costs. He stated that, in addition to relying on incorrect assumptions as noted by Mr. Burch, Morgan Foods' proposal would result in significant rate shock to the Austin customers that receive fire protection service. He noted that in 2003, the Commission approved a public fire protection charge of $1.97 for a 5/8" meter, which was increased to $4.19 in 2010. If the Commission were to accept Morgan Foods' proposal, the monthly fire protection charge for a 5/8" meter would be $11.39, an amount nearly six times higher than the rate approved by the Commission less than a decade ago. Also, disagreeing with Mr. Heid's statement that Stucker Fork cannot cite a single instance where the Maine Methodology was used or accepted in Indiana, he noted that Stucker Fork calculated its fire protection charges based upon the Maine Methodology in Cause Nos. 42752 and 43780.

10. Commission Discussion and Findings. Pursuant to Ind. Code § 14-33-20-14, changes to Petitioner's rates and charges for water service are subject to the Commission's jurisdiction in the same manner as municipal water utilities. The statute governing municipal water utilities, Ind. Code § 8-1.5-3-8, requires that a water utility furnish reasonably adequate services and facilities, and that the utility's rates and charges be nondiscriminatory, reasonable and just. Section 8(c) further identifies the revenue requirements to be considered in establishing the utility's rate and charges, including: (1) all legal and other expenses incident to the utility's operations; (2) a sinking fund for the liquidation of bonds or other obligations; (3) debt service reserve; (4) working capital; (5) extensions and replacements, to the extent not provided for through depreciation; and (6) taxes.

As noted earlier, the Commission approved a settlement agreement between Petitioner and the OUCC in its 43780 Order. The 2010 Settlement Agreement contains certain conditions that are relevant to this proceeding. The first are related to specific capital improvement projects and the manner in which such projects are to be funded. The second is related to the use of the COSS as the basis for eliminating any remaining subsidies absent significant and material changes in consumer usage characteristics. And, finally, a condition related to Stucker Fork's agreement to amend its bad debt rules.

In this case, Stucker Fork seeks authority to: (1) adjust its rates and charges pursuant to the COSS; (2) add and amend certain projects in its capital improvement plan that were agreed upon in the 2010 Settlement Agreement, as well as the manner and method of funding those capital projects; and (3) retain its existing bad debt rules or policies. The OUCC raises several objections to Petitioner's proposed capital improvement plan amendments and the associated funding methods, and requests the Commission require Petitioner to amend its bad debt rules in accordance with the 2010 Settlement Agreement and 43780 Order. Intervenor, Morgan Foods, takes issue with the appropriateness of using the COSS to further eliminate subsidies among the various rate classes.

Although not directly articulated, Stucker Fork essentially requests the Commission enforce the provisions of the 2010 Settlement Agreement that it continues to find acceptable (*i.e.*, using the COSS to further eliminate subsidies[1] and implementing a meter replacement program) and excuse it from compliance with other provisions of the 2010 Settlement Agreement that it no longer finds acceptable (*i.e.,* certain capital improvement projects and the manner in which they are funded, and revising its bad debt rules). Therefore, the Commission will consider the evidence presented by the parties in determining whether sufficient cause exists to modify any of the terms and conditions in the 2010 Settlement Agreement.[2] Stucker Fork, as the Petitioner, bears the burden of demonstrating such modifications to the 2010 Settlement Agreement are just and reasonable and in the public interest.

A. **Revenue Requirements**.

1. **Operations and Maintenance Expense**. The OUCC recommended, and Stucker Fork agreed, that we should disallow a $257 expense for a Thanksgiving dinner and a $287 expense for flowers. Similarly, the parties agreed that Stucker Fork's annual allowance for the Marble Hill tank painting should be reduced from $16,667 to $10,000 due to the reduced costs for ground, as opposed to elevated, tank painting; Stucker Fork's well maintenance expense should be increased from $6,000 per year to $7,500 per year to account for an additional well; and Stucker Fork's intake cleaning expense should be increased from $1,500 per year to $3,000 per year for recovery over a reduced time period. Based on the evidence presented, the Commission finds that the OUCC's proposed adjustments to test year expenses as set forth in this paragraph are reasonable and should be accepted. After these changes have been considered, the resulting Operations & Maintenance expense is $2,477,562.

2. **Debt Service**. The OUCC recommended, and Stucker Fork consented to, an adjustment for Stucker Fork's debt service revenue requirement. Stucker Fork initially calculated its proposed debt service revenue requirement by using the average annual debt service for the remaining 13-year life of its Refunding Bonds. OUCC witness Mr. Corey recommended, however, that it is more appropriate to calculate the debt service revenue requirement by averaging the annual debt service over the anticipated five year life of the rates being requested. Based on the evidence presented, the Commission finds that the OUCC's proposed adjustments to debt service as set forth in this paragraph are reasonable and should be accepted. Using a five year average results in annual debt service of $716,871.

3. **Maintenance, Upkeep, Repairs, Extensions and Replacements.** In support of its request to adjust its rates and charges, Stucker Fork presented a capital improvement plan, which contains additions and modifications to projects that had been agreed upon in the 2010 Settlement Agreement, as well as proposed changes to the manner of funding

[1] However, as noted above, neither the parties nor the Commission has taken issue with Stucker Fork's ability to use the COSS in this Cause.

[2] We note that this is consistent with Petitioner's and the OUCC's agreement in the 2010 Settlement Agreement that their agreement "is without prejudice to and shall not constitute a waiver of any position that either party may take with respect to any issue in any future regulatory or non-regulatory proceeding." 2010 Settlement Agreement at page 3, paragraph 9. *See also, Richmond Power & Light*, Cause No. 40434 (IURC March 19, 1997).

certain of those projects. According to Stucker Fork's engineering witness, Mr. Burch, the capital improvement plan contains the capital items that are reasonable and necessary for the upkeep, maintenance, repair, and replacement of Stucker Fork's facilities. Based on our review of the evidence, there does not appear to be any dispute among the parties concerning whether particular projects are necessary or should be completed. Rather, the dispute appears to center primarily on whether Stucker Fork has made sufficient progress on particular capital projects and its proposed changes to the funding of certain projects.

Based on the evidence presented, the Commission finds that the following capital improvement projects should be approved and completed as set forth below. In addition, to monitor and ensure that sufficient progress is being made on its approved capital projects, Stucker Fork shall file a report under this Cause every six months indicating its progress towards completing the approved projects.

a. Meter Replacement Program and INDOT Relocation Project. The OUCC supported Stucker Fork's inclusion of, and funding for, a meter replacement program and the installation of certain facilities that must be relocated as a result of an INDOT road project. Mr. Burch estimated the cost of the meter replacement program to be $1,507,250. Stucker Fork's share of the water main relocation project is $152,000. The undisputed evidence of record demonstrates that these two projects are reasonable, necessary, and should be completed. Accordingly, the Commission finds that these projects should be approved and included within Stucker Fork's capital improvement plan.

b. 16 Inch Ductile Iron Pipe Replacement Project. Petitioner proposed to include $1,950,000 in E&R for the replacement of 26,000 linear feet of 16 inch ductile iron pipe at an estimated cost of $75 per linear foot. The OUCC argued that this project should be eliminated from Stucker Fork's capital improvement plan because it was a project approved in the 43780 Order as part of the 2010 Settlement Agreement and was already being funded in rates. Mr. Rees testified that Stucker Fork had not made timely progress towards completing the project and had not accounted for the difference between amounts spent and anticipated revenues collected to fund the project.

Subsequently, Mr. Burch clarified that the proposed project was not duplicative of the approved project, but a continuation of that project. Stucker Fork now anticipates replacing an additional 10 miles of 16 inch ductile iron pipe, for a total of 15 miles, due to the significant corrosion from acidic soil that it encountered while replacing some of the pipe. He noted that Stucker Fork is in year three of the five-year capital improvement plan and has completed approximately 9,300 linear feet of the project.

While Stucker Fork indicates that it expects to replace an additional 10 miles of pipe due to the significant corrosion it recently encountered while working on the project, it failed to provide any support for its expectation that the soil along the entire 15 miles of pipe is acidic or that the entire pipe has sustained significant corrosion requiring replacement. *See* Pet.'s Ex. 18, p. 1. In addition, although Stucker Fork asserts that it has sustained over 20 main breaks within the past five years, it was unable to provide documentation identifying the circumstances,

location or specific number of breaks. *Id.* at p. 2. Further, given the uncertainty that exists concerning Stucker Fork's search for additional capacity at the Marble Hill wellfield and any resulting impact that it may have on operation of the Austin Surface Water facility, it is clear that additional planning and coordination between these projects and the replacement of additional 16 inch main will be needed in the near future. Therefore, we decline to approve the replacement of the additional 10 miles of pipe proposed by Petitioner at this time.

In the 43780 Order, Petitioner was authorized to collect $1,950,000 for the 16 inch ductile iron pipe replacement project over five years ($1,950,000/5years = $390,000). Two years have passed since that Order was issued through the test year of June 30, 2012, providing Petitioner with an opportunity to recover $780,000 ($390,000*2 years). The evidence in this case indicates Petitioner incurred $465,531 to complete a portion of this project. Thus, Petitioner was provided an opportunity to accumulate $314,469 ($780,000-$465,561) in unspent funds to complete this project. The evidence in this case reveals that Petitioner has installed 8,411 feet of the 26,000 feet.[3] Therefore, 17,589 feet remain to be installed. Applying Petitioner's proposed $75 per linear foot cost to the remaining feet to be installed results in required funding of $1,319,175. Deducting $314,469 from this amount provides the amount of funding required to complete the project or $1,004,706 ($1,319,175-$314,469). Therefore, based on the evidence presented, we find that $1,004,706, the remaining amount to be collected for the previously agreed upon and approved project, should be included in E&R.[4]

In addition, Petitioner shall begin documenting and maintaining records of all main breaks within its system, including identification of the circumstances and location of the breaks.

c. **Service Line Replacement Project**. The 2010 Settlement Agreement included a service line replacement project consisting of $400,000 to replace 500 service lines at $800 per service over five years. In the current case, Stucker Fork again requests a service line replacement project identical in scope and cost to that approved in the 43780 Order. The OUCC recommended denying the request because Petitioner failed to provide evidence indicating how much of the project approved in the 43780 Order was complete and how this request was related.

Petitioner's witness, Mr. Burch, subsequently indicated that Stucker Fork has been fortunate in that the service lines have not deteriorated as rapidly as originally anticipated. Without offering any supporting evidence, he estimated Stucker Fork has only been replacing approximately 25 to 50 service lines per year. However, he further indicated that Stucker Fork

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[3] Although Mr. Burch testified that almost 9,300 linear feet of the project has been completed, the only figure in evidence that matches the amount of the project completed and corresponds to the cost provided by Petitioner in response to an OUCC data request is 8,411 linear feet. *See* OUCC's Ex. 2, Att. HLR-1, p. 3.

[4] We also note that the first section of main was bid at a substantially lower amount of $55.35 per linear foot and therefore, any cost savings would be available to Petitioner to continue further replacement as proposed should Petitioner find it prudent to do so. OUCC's Ex. 2, p. 5. In addition, the $600,000 Radio Tower Road pipe replacement project (which Stucker Fork was required by the 2010 Settlement Agreement to fund with its cash on hand) was inadvertently designated by Petitioner as a separate project when it was actually a part of the 16 inch ductile iron pipe project and would provide an additional source of funds. *Id.* at p. 8.

expects the service line failure rate will likely increase due to the age of the service lines, and that without additional funds Stucker Fork's lost water may increase, water pressure to individual customers could be marginalized, and service quality may be jeopardized.

Based on the evidence presented, Petitioner has failed to support its request for an additional $400,000 (or $80,000 per year) for service line replacements. Since the 43780 Order, Petitioner has had the opportunity to recover $160,000 ($80,000*2 years) through the test year of June 30, 2012. Petitioner did not provide any evidence concerning expenditure totals on service line replacements. Rather, Petitioner simply indicated that it replaced between 25-50 service lines per year. Using the average of this range, we estimate that Petitioner incurred $60,000 for service line repairs (37.5 service lines/year*$800/service line). Thus, Petitioner was provided an opportunity to accumulate $100,000 ($160,000-$60,000) in unspent funds to replace service lines. In addition, other than Mr. Burch's opinion, Stucker Fork offered no evidence to support its continued expectation of an increase in service line failures, which has yet to occur. Despite Petitioner's inability to document the actual number of failed service line repairs in recent years, we do find it reasonable to expect some continued deterioration. Based on Mr. Burch's historical replacement estimate of 25-50 service lines per year at the undisputed cost of $800 per line, during the five-year capital improvement plan life would require between $100,000-$200,000. Accordingly, the Commission finds that the OUCC's recommendation to provide for the replacement of 25 service lines/year is reasonable and necessary for the provision of reliable water service and should be approved. Allowing 25 service lines/year results in funding of $20,000/year or $100,000 over five years. At such level, Stucker Fork has accumulated sufficient cash on hand to complete future service line repairs. Additionally, beginning with the 2014 Annual Report, Petitioner shall include the number of service lines replaced, including their lengths, locations and associated costs, in its annual report filings with the Commission.

d. Installation of New Hydrants. As part of the 2010 Settlement Agreement, the Commission approved $50,000 to install 10 fire hydrants in zone 2 at $5,000 per hydrant. In its initial filing in this Cause, Stucker Fork again requested approval of a hydrant project identical in scope and cost to the one approved in the 43780 Order. Like the service line replacement project, the OUCC recommended denying this request because Petitioner failed to offer any evidence that would allow a determination regarding how much of the project approved in the 43780 Order was complete and how this request was related. Mr. Burch subsequently indicated that Stucker Fork has determined that it only needs to install four hydrants, in addition to the two hydrants that have already been installed. Therefore, the Commission finds that Stucker Fork's fire hydrant installation project should be reduced to $20,000 to reflect the installation of four additional hydrants.

e. Goshen Road/Lovers Lane/Plymouth Road Water Main Replacement Project. Petitioner proposes to include $738,000 in E&R for a water main replacement along Goshen Road, Lovers Lane and Plymouth Road. Mr. Burch indicated this project was approved in the 43780 Order. Pet.'s Ex. 1, p. 19. The OUCC's witness, Mr. Rees, noted that Stucker Fork had not yet commenced construction of this project, the cost had more than doubled and the 2010 Settlement Agreement provided that Stucker Fork would fund this

project through its cash on hand. While Mr. Rees did not object to the necessity of completing this project, he noted that the OUCC did object to including funding for this project in E&R.

Stucker Fork's witness, Mr. Burch, responded that the proposed project is a 6,000 foot expansion of the project approved in the 43780 Order. With the additional 6,000 feet and increased installation and materials costs, Mr. Burch estimated that the project's cost would be approximately $738,000, which is an increase of $363,000 from the previously planned project. He explained that Stucker Fork is facing two long-term projects, *i.e.* the groundwater and EPA Surface Water Rule projects, that were not contemplated during Cause No. 43780 and are more suitable to using cash on hand in conjunction with long-term financing. And, that due to the small size of this project and timing for completion, Stucker Fork believes it is more appropriate to now fund this project through E&R.

Based on the evidence presented, Stucker Fork has failed to provide sufficient evidence to support a modification to the 2010 Settlement Agreement. The evidence demonstrates that Stucker Fork has sufficient cash on hand to fulfill its obligation to fund the project as contemplated by the parties. We see no reason to modify the 2010 Settlement Agreement simply because Stucker Fork has found other projects that it now wishes to fund with the cash. However, because the 2010 Settlement Agreement only provided for the payment of $375,000 from cash on hand for a portion of the project proposed in this Cause, the Commission finds it is reasonable to authorize the increase of $363,000 for completion of the expanded project through Stucker Fork's capital improvement plan funded through E&R.

f. Conclusion. Based on the findings for each of the projects discussed, the total amount of funding for E&R is $3,046,956 as reflected in the table below. Both parties proposed a five year recovery period and we find that to be a reasonable time period. Therefore, the annual E&R revenue requirement is $609,391.

Capital Improvement Project	**Amount**
16" Ductile Iron Pipe Replacement	$ 1,004,706
Meter Replacement Program	$ 1,507,250
Goshen Road/Lovers Lane/Plymouth Road	$ 363,000
Water Main Relocation (District's Share)	$ 152,000
Fire Hydrant Installation in Zone 2	$ 20,000
Extension & Replacements Total	**$ 3,046,956**
Divide by 5 years	5
Annual Extensions and Replacements	**$ 609,391**

Both parties provided significant discussion about the amount of cash collected since the 43780 Order. As reflected in the calculation below, Petitioner's June 30, 2012 test year

unrestricted cash balance was $3,247,155. *See* Pet.'s Ex. Revised 6 at p. 38. Based on our findings above, Petitioner will be required to use a portion of its cash balance to fund the 16 inch ductile iron pipe replacement project, the Goshen Road project, and service line replacements totaling $789,469 ($314,469 +$375,000+ $100,000). After deducting this amount, Petitioner's remaining cash balance will be $2,457,686. Mr. Seever indicated that Petitioner's cash balance has declined an additional $350,000 since the end of the test year. Pet.'s Ex. 15 at p. 5. Deducting this amount provides Petitioner with a cash balance of $2,107,686. We note that this amount of cash provides Petitioner with a cash level equal to 8.2 times its working capital requirement. While we believe this level to be high, Petitioner has demonstrated that some level of this cash will be required to complete necessary future projects. This remaining cash balance also compares favorably to the resultant cash balance Petitioner agreed to in its last rate case, net of expenditures for certain agreed-upon capital improvement projects.

Stucker Fork Cash Balance Review	
Unrestricted Cash Balance on Hand as of June 30, 2012 Test Year	$ 3,247,155
Less: 16" Ductile Iron Cash on Hand	314,469
Less: Goshen Road Project cash funded settlement portion	375,000
Less: Service Line Replacements	100,000
Cash Balance Subtotal	2,457,686
Less: Petitioner's Post Test Year Cash Reduction	350,000
Total Cash	$ 2,107,686

4. **Approved Revenue Requirements**. Based on the evidence presented and the determinations above, we find that Stucker Fork should be authorized to increase its rates and charges to produce additional revenues from rates of $260,720, a 7.6% increase in rate revenues, resulting in a total net revenue requirement of $3,689,680. Consistent with our findings herein, the following table summarizes Stucker Fork's proposed rate increase:

Revenue Requirements	
Operation & Maintenance Expense	$ 2,477,562
Debt Service	716,871
Extensions & Replacements	609,391
Subtotal:	$ 3,803,824
Less: Interest Income	16,200
Less: Penalties	20,036
Less: Other Income	77,908
Total Net Revenue Requirements	$ 3,689,680
Less: Revenues at Current Rates	3,428,960
Revenue Increase Required	$ 260,720
Percentage Increase	7.6%

B. **Cost of Service**. As noted earlier, Stucker Fork has indicated that no significant or material changes in consumer usage characteristics have occurred since the 43780 Order and relies on the COSS utilized in that Cause for the proposed allocation of costs to customers in this Cause. No party presented evidence demonstrating that significant or material changes in customer usage have occurred. However, Morgan Foods, Stucker Fork's largest industrial customer, presented evidence in support of its position that the COSS is flawed and should not be relied upon to further reduce or eliminate subsidies among the various rate classes.

Before addressing the issues raised by Morgan Foods, we note that it has been the position of this Commission that "utility rates should be designed to the maximum extent practicable to reflect the cost of providing service, while avoiding abrupt changes in rate structures and undue hardship." *Bd. of Dir. for Utils. of the Dept. of Pub. Utils. of the City of Indianapolis*, Cause No. 39066, 1991 Ind. PUC LEXIS 350, *72 (IURC Nov. 1, 1991), citing *Bd. of Dir. for Utils. of the Dept. of Pub. Utils. of the City of Indianapolis*, Cause No. 36979, 1983 Ind. PUC Lexis 410 at *64 (IURC June 20, 1983). We have also previously considered the costs and benefits of conducting a cost of service study, including the level of detail and complexity required, when determining whether a utility should be required to undertake such a study. *See Westfield Gas Corp.,* Cause No. 37568, 1984 Ind. PUC LEXIS 106, *4-7 (IURC Nov. 8, 1984). And, we have recognized data limitations for small utilities. *See Wabash Co. Rural Elec. Membership Corp.*, Cause No. 38499, 1988 Ind. PUC LEXIS 366, *13 (IURC Sept. 21, 1988).

Based on the evidence presented as further discussed below, we find that Stucker Fork should be authorized to use the COSS it prepared to further reduce the subsidies among its various rate classes. However, because application of the COSS to the approved rate increase will result in a relatively significant increase in rates to Stucker Fork's sale for resale and industrial customers, the Commission finds that in order to lessen or minimize the rate shock to these customers the rates shall be phased in at 75% of their cost of service with the remaining costs spread over the remaining customer classes.

1. **Customer Classification of the City of Scottsburg**. Morgan Foods argues that the COSS misclassifies Scottsburg as an industrial customer, when it is actually a wholesale customer. Mr. Heid explained that although Scottsburg has its own source of water supply, and treatment, storage, transmission and distribution facilities, it also has a wholesale water purchase agreement under which it purchases water from Petitioner for resale only. Citing to the AWWA Manual, Mr. Heid stated that the end use characteristic of Scottsburg determines its classification as a wholesale customer. Stucker Fork's witness, Mr. Burch responded that Scottburg's service characteristics, facility requirements and demand patterns are more similar to Stucker Fork's industrial customers, like Morgan Foods, and not its wholesale customers. He also noted that, unlike its other wholesale customers, Stucker Fork does not regulate the flow of water to Scottsburg with a flow control device.

While we agree with Morgan Foods that Scottsburg meets the AWWA Manual's definition of a wholesale customer, we find that in this instance the misclassification does not have a material impact on the COSS results. As noted by Petitioner's witness, Mr. Seever, the

same capacity factors were assigned to both the wholesale and the industrial customers. And, as discussed further below, there is minimal impact from the assigned equivalent meter factor. Therefore, changing Scottsburg's classification would have little to no impact on the COSS.

2. **Equivalent Meter Factors**. Mr. Heid explained that an equivalent meter factor of 1.0 was erroneously utilized for the wholesale customer class and that, given wholesale customers have meters larger than 5/8-inch, this results in an erroneous calculation for the equivalent meters. Mr. Heid observed that use of erroneously low equivalent meter factors for the wholesale customer class both under-allocates costs to the wholesale customer class and over-allocates costs to all remaining customer classes. While Stucker Fork explained it believed its initial calculation was correct and consistent with its wholesale agreements, Mr. Seever admitted at the hearing that Mr. Heid's arguments had some merit. *See* Tr. at 205-206.

Once again, the Commission agrees with Morgan Foods that Stucker Fork incorrectly utilized an artificially low equivalent meter factor and that a utility's wholesale agreements should not dictate the cost of service methodology. However, as noted by Mr. Seever, this particular issue results in a subsidy of approximately 0.5% and therefore has no material impact on the COSS and its results. Nonetheless, the Commission finds that when Stucker Fork completes its next COSS, it should calculate the equivalent meter factors consistent with the methodology presented by Mr. Heid.

3. **Functional Cost Allocation Factors**. Morgan Foods argues that Stucker Fork's functional cost allocation factors are flawed due to using the weighted average of customer class non-coincident peak day and peak hour demands instead of the system coincident demands. Stucker Fork concedes that the data it used is flawed, but asserts that it has utilized the best data available. Morgan Foods recommends the Commission accept the functional cost allocation factors as presented for this case only, but recommends Stucker Fork be required to collect adequate data (*i.e.,* maintenance of hourly pumping records) to present meaningful functional cost allocation factors in its next case.

Given the parties general agreement to accept (for this Cause only) the functional cost allocation factors utilized by Stucker Fork and the lack of better available data, we find the functional cost allocation factors used by Stucker Fork in its COSS to be reasonable. With regard to future data collection, Mr. Seever testified that Morgan Foods' recommendation would, at a minimum, require Stucker Fork to upgrade its software and computer equipment and hire new personnel to collect, maintain and analyze more data. He argued such a requirement would not allow Stucker Fork to improve service to its customers, but would require Stucker Fork to incur additional costs and increase rates with no indication that the COSS results would be materially different. As Stucker Fork is a small rural water utility, we agree that system-wide installation of pump monitoring equipment would be costly and have little impact on any cost of service study conducted in the immediate future. Nonetheless, this should not be an excuse to avoid modernization in transitioning towards the installation and use of equipment that will provide meaningful data, both for preventative and predictive maintenance, and long-term collection of data to be used in future cost of service studies. Therefore, Petitioner shall include

pump monitoring equipment and software in their future facilities where reasonable, and begin retrofitting existing equipment when maintenance and equipment replacement present opportunities to do so.

4. **Difference Between Small and Large Volume Customers**. Morgan Foods takes issue with the fact that the COSS does not differentiate the use of facilities between small and large volume customers. Mr. Heid explained that large volume customers, such as Morgan Foods, tend to be served directly from the larger transmission mains and do not use the smaller distribution mains, whereas the smaller customers are served by both the larger transmission mains and the smaller distribution mains. Consequently, Stucker Fork's COSS inaccurately over-allocates costs to large volume customers. Stucker Fork responded that due to the size and layout (varied sources of supply and multiple pressure zones) of its system, it has adopted a more "communal approach" to cost allocation by examining each line on a case-by-case basis for classification as a transmission or distribution main.

An examination of the AWWA Manual, at pages 167-168, indicates that either Morgan Foods' or Petitioner's approach for allocating costs associated with transmission and distribution mains is acceptable depending upon the particular circumstances. Based on the utility system maps and evidence presented by Stucker Fork concerning its system operations, we find Stucker Fork's approach to be reasonable. As noted earlier, Petitioner is a small rural water utility with a much less diverse customer base when it comes to large and small customers, as opposed to a large investor owned utility such as Indiana American Water Company. While we approve of Stucker Fork's approach in this COSS, we find that Petitioner shall, on a going forward basis, begin maintaining records of the costs of mains based on size and type as new lines are added or replaced on the system. Such efforts will further enhance the accuracy of future cost of service studies and should help reduce further disputes in this area.

5. **Morgan Foods as Large Industrial Customer Class**. Morgan Foods proposes to be placed in its own customer class for COSS purposes. In support of this argument, Mr. Heid stated that Morgan Foods is more than two and one half times larger than all other industrial customers (excluding Scottsburg) and its usage is not homogenous with Stucker Fork's other customers. In response, Mr. Seever indicated that Morgan Foods' claims regarding the types of mains with which it is provided service are incorrect, Morgan Foods' usage is not that much greater than other industrial customers, and Morgan Foods has failed to provide a valid basis for treating Morgan Foods as its own customer class.

Although Morgan Foods is Stucker Fork's largest user, this fact alone is insufficient to justify requiring Petitioner to create a separate class for Morgan Foods. Therefore, we decline to do so.

6. **Customer Class Capacity (or Peaking) Factors**. Morgan Foods argues that Stucker Fork's customer class capacity factor is flawed and unreliable. Mr. Heid noted that Stucker Fork used the maximum day and hour capacity factors set forth in the AWWA Manual, which are examples and not accepted industry standards, and did not conduct any

analysis or study to determine the correct capacity factors for its customer classes. However, because Stucker Fork lacks the necessary data to conduct a capacity factor analysis, Morgan Foods recommended acceptance of Stucker Fork's proposed capacity factors in this case, except in two instances. First, Mr. Heid proposed to provide Morgan Foods with the lowest capacity factor on Stucker Fork's system. Second, Mr. Heid suggested that the wholesale customers receive a higher capacity factor. Morgan Foods also recommended the Commission order Stucker Fork to gather and maintain more detailed hourly pumpage records so that a more accurate capacity factor analysis could be completed in Stucker Fork's next COSS.

We agree with Morgan Foods that the maximum day and hour capacity factors cited in the AWWA and utilized by Stucker Fork are examples rather than industry standards. Although better capacity factors should be developed and utilized when possible, we recognize the difficulties and issues associated with developing utility specific capacity factors that small utilities face. In fact, even Indiana's largest investor owned and municipal owned water utilities have experienced issues with obtaining sufficient data. *See Ind. American Water Co.*, Cause No. 44022, pp. 97-111 (IURC June 6, 2012); *Dept. of Waterworks of the Consol. City of Indianapolis, Ind.,* Cause No. 43645, pp. 71-77 (IURC Feb. 2, 2011). Absent additional data, we agree it is reasonable in this instance to use the example data for the capacity factors contained in the COSS. However, we decline to make the two modifications suggested by Morgan Foods.

Mr. Heid recommends that Morgan Foods should be assigned a lower capacity factor, though he fails to offer any analysis or support for the values used in calculating the proposed capacity factor. In addition, although Mr. Heid's recommended capacity factors for Petitioner's wholesale customers are consistent with those recommended by the AWWA Manual, Stucker Fork explained that adjustments were made due to the flow control devices utilized with its wholesale customers to control the demand on its system. We have previously recognized that flow control devices may impact a COSS if the utility owns and controls the device and then uses the device to actually control the flow to the wholesale customer. *Ind. American Water Co.*, Cause No. 44022, p. 111 (IURC June 6, 2012).

Finally, consistent with our findings above and those regarding the functional cost allocation factors, we find that Petitioner shall include pump monitoring equipment and software in their future facilities where reasonable, and begin retrofitting existing equipment when maintenance and equipment replacement present opportunities to do so. Any data from such installed equipment shall be collected and maintained for use in future cost of service studies.

7. **Cost of Fire Protection**. Stucker Fork provides fire protection service only in and around the City of Austin, Indiana ("Austin"). The disagreement between Morgan Foods and Stucker Fork on this issue arises out of the lack of information regarding fire flows. Stucker Fork calculated fire protection costs by using the Maine Methodology as contained in the 4th edition of the AWWA Manual. Morgan Foods challenges this approach because: (1) it uses a curve different from the current Maine Curve and 6th edition of the AWWA Manual; (2) it is not endorsed by the AWWA or universally accepted; (3) it is only to be used to estimate public fire protection costs, and not private fire protection costs; and (4) it is only to be

used when a full COSS is not performed. Morgan Foods recommended using ISO needed fire flow requirements, but indicated that Stucker Fork did not have this information. Mr. Heid also noted that it had been eighteen years since Stucker Fork had last conducted fire hydrant flow tests, which was not considered good operating practice.

Although we agree with Morgan Foods that Stucker Fork's use of the Maine Methodology is not optimal because it is not widely used or accepted, its curves are dated and it should not be used to determine private fire protection costs, we are constrained to approve any alterations due to the lack of available data upon which to base revised fire protection costs. However, the Commission finds that in preparing for its next COSS, Stucker Fork should make every effort to obtain relevant ISO reports. In addition, within two months of this Order, Stucker Fork shall file in this Cause and implement a written plan that documents hydrant flow testing for future use in a COSS.

C. Other Issues.

1. **Bad Debt Rules**. In Cause No. 42752, as part of a settlement with the OUCC that the Commission approved, Stucker Fork agreed to revise its existing bad debt rules to comply with the Commission's regulations. Pursuant to 170 IAC 6-1-16(c), a utility may not disconnect service to a customer for his or her failure to pay for services to a previous occupant of the premises to be served, unless the utility has a good reason to believe the customer is attempting to defraud the utility by using another name. The OUCC asserts that Stucker Fork has not amended its bad debt rules as agreed to in Cause No. 42752 to eliminate the practice of requiring subsequent tenants or property owners to pay the outstanding balance of a predecessor tenant's or property owner's bill before new water service is provided.

Stucker Fork asserted that because it is a "municipal-like" utility, it is not required to comply with the Commission's regulations and is not required to enact (and has not enacted) a formal set of rules. Nevertheless, Mr. Seever testified that the March 3, 2003 Stucker Fork Board meeting minutes provide that Petitioner's bad debt practice is that for all businesses, including rental properties, Stucker Fork treats the property owner as the customer. So when a water bill goes unpaid, the property owner is held responsible for the bill. He explained this policy is consistent with the Commission's rules because it provides that the property owner, and not the tenant, is responsible for payment of water service.

Although Stucker Fork is considered a municipal utility for purposes of regulation and not required to comply with the Commission's regulations, it agreed to revise its bad debt rules or practices to comply with the Commission's regulations. Stucker Fork did not offer any reason or explanation to justify why this provision of the settlement agreement approved in Cause No. 42752 should be revised or otherwise not enforced. Therefore, the Commission finds that within thirty days of this Order, Stucker Fork shall commit its bad debt practice as explained by Mr. Seever to writing and file it for approval with the Commission in accordance with the Commission's Thirty-Day Administrative Filing Procedures and Guidelines, 170 IAC 1-6.

2. **Water Conservation Plan**. The 2010 Settlement Agreement (at page 3) provided that Stucker Fork would form a Water Conservation Committee and prepare a Water Conservation Plan by mid-2011. The OUCC's witness, Mr. Rees, noted that although Stucker Fork had not formed a formal Water Conservation Committee, it had developed a plan to reduce water loss from leaks and accomplished several activities. He indicated that a written Water Conservation Plan with associated goals helps ensure accomplishments and continuing momentum for water conservation. The Commission agrees with Mr. Rees and finds that within nine months of the date of this Order, Stucker Fork shall file under this Cause a written Water Conservation Plan, which includes goals and a public notification plan.

3. **EPA Surface Water Rule**. The evidence presented by both Petitioner and the OUCC indicates that Stucker Fork will need to take steps, such as completion of a capital project, to comply with the EPA Surface Water Rule by 2016. However, no evidence concerning the specific project, plan, engineering or cost was provided by Stucker Fork. As the deadline for compliance with the EPA Surface Water Rule is quickly approaching, the Commission finds that within six months of the date of this Order, Stucker Fork shall file under this Cause its plan for compliance with the EPA Surface Water Rule, including project identification, cost estimation and the proposed funding. To the extent that Petitioner's plans for compliance will impact operation of the Austin Surface Water facility or involves other capital projects, such as the possible expansion of the Marble Hill wellfield or additional replacement of the 16 inch ductile iron pipe, Petitioner shall file notice of its plans detailing the project scopes, conceptual plans, cost estimate and proposed schedules upon approval of such plans by Petitioner's governing body.

4. **Long-term Contract**. As demonstrated by the evidence and interactions between Stucker Fork and Morgan Foods in this proceeding, it appears that their relationship with each other is often animus. Since Morgan Foods is a large consumer of water and Stucker Fork's largest customer, we would expect the two entities to have a more amicable working relationship than was demonstrated. It is clear that Stucker Fork is concerned with investing additional infrastructure necessary to serve Morgan Foods' needs, only to have Morgan Foods decide to leave Petitioner's system by developing its own source of water supply, going out of business or relocating its facilities to another area. Because the development of a long-term contract for the provision of water services may greatly benefit Morgan Foods and Stucker Fork, as well as Petitioner's other customers, we strongly encourage them to explore the opportunity of entering into such an arrangement. Stucker Fork shall provide an update of its discussions with Morgan Foods in its next rate case filing.

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

1. Petitioner is authorized to increase its rates and charges to produce additional revenues from rates of $260,720, a 7.6% increase in rate revenues, resulting in total annual rate revenue of $3,689,680.

2. Petitioner shall file semi-annual reports beginning on January 1, 2014 detailing the progress made towards completing the capital projects approved herein. Such reporting shall continue until all projects have been completed.

3. Beginning in 2014, Petitioner shall include the number of service lines replaced, including their lengths, locations and associated costs, in future Annual Reports filed with the Commission.

4. In accordance with Finding Paragraph 10.A.3.b., Petitioner shall begin documenting and maintaining records of all main breaks within its system, including identification of the circumstances and location of the breaks.

5. In accordance with Finding Paragraph 10.B.3, Petitioner shall include pump monitoring equipment and software in their future facilities where reasonable, and begin retrofitting existing equipment when maintenance and equipment replacement present opportunities to do so.

6. In accordance with Finding Paragraph 10.B.4, Petitioner shall begin maintaining records of the costs of mains, based on size and type, as new lines are added or replaced on the system.

7. In accordance with Finding Paragraph 10.B.7, within two months of this Order Petitioner shall file in this Cause, and begin implementing, a written plan that documents hydrant flow testing for use in future cost of service studies.

8. In accordance with Finding Paragraph 10.C.1, within 30 days of this Order Petitioner shall commit its bad debt practice to writing and file it for approval by the Commission in accordance with 170 IAC 1-6.

9. In accordance with Finding Paragraph 10.C.2, Petitioner shall filed a written Conservation Plan within nine months of the date of this Order.

10. In accordance with Finding Paragraph 10.C.3, Petitioner shall file within six months of this Order its plans for compliance with the EPA Surface Water Rule and other required filings.

11. When preparing its next cost of service study, Petitioner shall comply with the requirements identified herein.

12. Within thirty days of this Order, Petitioner shall file new schedules of rates and charges, consistent with this Order, with the Water and Sewer Division of the Commission. New rates and charges shall be effective on and after the date of filing the new tariff with the Water and Sewer Division.

13. To the extent necessary, the Presiding Officers may consider and address any future request to modify for good cause a compliance filing deadline required herein.

14. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within twenty (20) days from the date of the Order, and prior to placing into effect the rates approved herein, the following itemized charges, as well as any additional chargers which were or may be incurred in connection with this Cause.

Commission Charges	$10,121.11
OUCC Charges	$ 2,631.11
Legal Advertising Charges	$ 241.19
Total	$12,993.41

Petitioner shall pay all charges into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission.

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

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

APPROVED: OCT 02 2013

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

Shala M. Coe
Acting Secretary to the Commission