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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE COMMISSION'S)
INVESTIGATION INTO THE ADOPTION)
OF ALTERNATIVE REGULATORY)
PROCEDURES FOR RATE ADJUSTMENTS)
INVOLVING SMALL WATER AND SEWER)
UTILITIES)

CAUSE NO.: 44203

APPROVED

MAR 14 2013

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Loraine L. Seyfried, Chief Administrative Law Judge

On June 6, 2012, the Indiana Utility Regulatory Commission ("Commission") commenced this investigation at the request of its Director of the Water/Wastewater Division to consider possible alternative regulatory procedures for the filing of rate adjustments by small water and sewer utilities. Notice of the investigation was given to the Indiana Office of Utility Consumer Counselor ("OUCC") and all water and sewer utilities described in Ind. Code § 8-1-2-61.5(a) ("Small Utilities").

Pursuant to public notice duly given and published, a Prehearing Conference was held on July 5, 2012, at 11:00 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. The Commission's August 8, 2012 Prehearing Conference Order established the agreed upon procedural schedule and designated E. Curtis Gassert as Testimonial Staff for the Commission in this proceeding.

Pursuant to public notice duly given and published, an Evidentiary Hearing was held on November 27, 2012 at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. At the hearing, the OUCC and Commission Testimonial Staff participated by counsel. The testimony and exhibits of the OUCC and Commission Testimonial Staff were offered and admitted into the evidence without objection.

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

1. Notice and Jurisdiction. Due, legal and timely notice of the public hearings in this Cause was given as required by law. The Small Utilities potentially affected by this investigation are "public utilities" and "municipally owned utilities" within the meaning of Ind. Code ch. 8-1-2 and subject to the Commission's jurisdiction under Ind. Code § 8-1-2-61.5. Further, Ind. Code § 8-1-2-61.5(d) authorizes the Commission to establish alternative regulatory procedures or generic standards for Small Utilities. Therefore, the Commission has jurisdiction over Small Utilities and the subject matter of this Cause.

2. **Background and Requested Relief.** On May 25, 2012, E. Curtis Gassert, Director of the Water/Wastewater Division, submitted a letter to the Commission requesting an investigation to consider an Alternative Regulatory Procedure (“ARP”) for Small Utilities. In the letter, Mr. Gassert indicated that the water and wastewater industries continue to face numerous challenges, especially those related to capital needs and small size, and that costs associated with Commission regulation can affect small systems more adversely than larger systems. The Water/Wastewater Division proposed the development of an ARP for Small Utilities that will provide for annual rate increases based on a cost index and improvements in financial, managerial and technical capacities.

3. **Statutory Authority.** Pursuant to Ind. Code § 8-1-2-61.5(e), the Commission may enter an order providing for an ARP if it finds, after notice and hearing, the regulatory procedures or standards are in the public interest and promote at least one of the following:

- (1) Utility cost minimalization to the extent that a utility’s quality of service or facilities are not diminished.
- (2) A more accurate evaluation by the Commission of a utility’s physical or financial conditions or needs.
- (3) A less costly regulatory procedure for a utility, its consumers, or the Commission.
- (4) Increased utility management efficiency that is beneficial to consumers.

4. **Evidence Presented.**

A. **Testimonial Staff Case-in-chief.** Mr. Gassert testified that the ARP would promote items one, three and four of the criteria listed in Ind. Code § 8-1-2-61.5(e). He stated the program would minimize utility costs through reduced rate case expense and improved financial, managerial and technical ability. He added that the ARP is a less costly regulatory procedure than a full rate case, and that utility management efficiency is increased because the utilities are required to participate in several mandatory and elective programs that are designed to address these issues.

Mr. Gassert explained that the ARP is in the public interest because many small water and sewer utilities have insufficient size or lack the resources to provide utility service in an efficient and effective manner. He noted the water and wastewater sectors are among the most capital intensive of all utilities. Due to their size and lack of resources, the time and cost it takes for a small water or sewer utility to obtain approval of a rate increase affect small systems and their customers more adversely than larger systems. Mr. Gassert stated the ARP is designed to motivate small utilities to take the actions needed to improve their financial and operational capabilities because the annual rate increases are only granted if the utility has participated in the required programs.

Mr. Gassert further testified that ratepayers are protected because the utility will only be allowed one yearly program rate increase with up to five increases over the course of six years before a full rate case is required. Also, the Annual Cost Index, which calculates the amount of the increase, is applied only to amounts approved in the utility's last rate case and not to the utility's actual operating expenses. He explained that, in the rate cases, the rate order would identify specifically which expenses are eligible for the ARP increase. He also stated that ratepayers are protected because the eligible expenses will have been reviewed as part of the rate case.

Mr. Gassert testified regarding the eligibility requirements of the program, stating that water and sewer utilities that serve fewer than 3,000 customers are eligible. Utilities that have received a rate order within two years prior to the date of a final order issued in this Cause will need to contact the Water/Wastewater Division, which will identify the expenses eligible for the Annual Cost Index. Any utility obtaining a rate order in the future will have those eligible expenses identified in the rate order. Mr. Gassert further listed each revenue requirement that would be eligible for the Annual Cost Index increase, along with the methodology used to calculate the Annual Cost Index. He also described the mandatory and elective program requirements, explaining that the utility must successfully participate in a certain number each year in order to be eligible for the annual increase.

In conclusion, Mr. Gassert testified that a pilot program was undertaken to identify flaws that might exist and to calculate the potential rate increases that could result. Five small utilities that had received rate orders within the last five years were selected, and the annual Cost Increase was applied against eligible costs. Mr. Gassert stated that the pilot program did not identify any issues of concern. He also testified that input and feedback on the ARP design was obtained from members of the Commission, the OUCC, and more than twenty stakeholders, which included representatives from utilities, water organizations, as well as accounting and law firms. He stated that the participants' comments were very supportive.

B. OUCC Case-in-chief. Edward R. Kaufman, Senior Analyst with the OUCC, provided testimony in response to the proposed ARP. Mr. Kaufman noted the proposal was thoughtful and comprehensive in its efforts to address a particular problem faced by small utilities, *i.e.*, the relatively high cost of securing rate relief. Although he agreed the proposed ARP would allow for a less costly procedure for eligible utilities and their customers, he proposed several changes and additions.

Mr. Kaufman testified that the ARP should include a limit on annual revenues of \$3 million per year. He also recommended that the ARP be applied prospectively, but that if the ARP is applied to utilities that have a received a recent rate order, the language specifying which utilities are eligible should be based on a particular date (*e.g.*, rate order issued after January 1, 2011). Mr. Kaufman also expressed a concern that utilities should not be permitted to expand the time between rate cases beyond six years. He recommended that a participating utility be required to come in for a general rate case after six years to further increase its rates.

Mr. Kaufman asserted that neither depreciation nor extensions and replacements

("E&R") should be considered an expense subject to an increase under the proposed ARP. He stated applying an inflationary adjustment to either expense does not advance the ARP's goal of protecting small utilities against increasing costs or incenting improved managerial performance. Mr. Kaufman also testified that joining InWarn should be mandatory and not an elective element of the ARP. Mr. Kaufman proposed that the Annual Cost Index calculation be capped at 7.5% on the annual increase and a cap of 25.0% on the total increase that a utility can implement through the ARP. He also recommended that if a utility's "achieved rate of return" based on Schedule F-4 from its most recent IURC Annual Report Form ("Annual Report") exceeds its authorized cost of capital from its most recent rate order, it should not be eligible to increase its rates through the ARP.

Finally, Mr. Kaufman explained why the OUCC believes the ARP should not be expanded to include larger utilities. He also suggested any approved ARP be revisited within five years after approval. Mr. Kaufman concluded by recommending that the ARP should be written, whether in a rule or in an order, to include language that codifies the process and the standards that will be followed.

C. Testimonial Staff Rebuttal. Mr. Gassert responded to the OUCC's concerns. He agreed with Mr. Kaufman that the ARP should not apply to gas or electric utilities as their characteristics and regulation do not warrant such a program. Mr. Gassert noted that Mr. Kaufman supported the proposal to limit eligibility for the ARP to utilities with 3,000 and fewer customers, but recommended if a utility's customer base grows to exceed the 3,000 customer threshold, the utility should no longer be eligible to increase rates via the ARP. Mr. Gassert expressed agreement that if the customer base grows to exceed the 3,000 threshold, the utility should no longer be eligible for rate increases via the ARP.

However, Mr. Gassert disagreed with Mr. Kaufman's proposal that utilities with annual revenues in excess of \$3 million should not be eligible, stating that he was concerned about placing additional restrictions on eligibility. He further argued that a utility with some large revenue generating commercial customers could exceed the \$3 million threshold but still be below the 3,000 customer limit. He stated that he preferred to review the eligibility requirements after the program has gained experience.

Mr. Gassert testified he disagreed with Mr. Kaufman's position that the ARP should be restricted to utilities that receive a rate order in the future, and not be available for those who have received an order within the last two years. He stated the determination of eligible expenses is not overly complicated and can be achieved outside the rate case. He also argued that a larger group of utilities should be allowed to participate so that the benefits of the program would be dispersed and more data regarding the ARP program could be gained for evaluation of the program. He stated he agreed with Mr. Kaufmann that the OUCC should be notified of utility filings and have the ability to participate in the informal process of determining eligible expenses for those utilities that receive a rate order before the ARP approval, but within the two year time period.

Mr. Gassert testified that there should not be a requirement that the utility elect to participate in the ARP at the time it files its base rate case, or that customers receive notice during a base rate case about the utility's possible participation the ARP. He argued that the utility is already required to provide notice for the ARP through the Commission's 30-Day Filing process, which is sufficient. He further testified that notification in the rate case would cause customer confusion and potential alarm, and noted that under the existing purchased water tracking and Distribution System Improvement Charge ("DSIC") processes, utilities are not required to provide notice of the intent to make such filings in base rate cases.

Mr. Gassert testified he agreed with Mr. Kaufman that utilities should not be allowed to extend the time between general rate increases beyond six years by selectively skipping some annual rate increases. He stated that utilities should not be allowed to "catch up" on prior year increases if they are skipped and should only be allowed a total of five increases in a six year period of time starting from the date of the utility's last rate order. Thus, if any years are skipped by the utility, the opportunity for that year's rate increase is forfeited.

In response to Mr. Kaufman's position that expenses for E&R and depreciation should not be increased for municipal and not-for-profit utilities, Mr. Gassert stated that this component is the most debatable for application of the Annual Cost Index. He recommended leaving E&R and depreciation in the program as proposed until more experience with the program is gained.

Mr. Gassert testified that a utility's participation in InWarn should not be a mandatory program element and should remain an elective. He noted that, while the program relates to safety and is not burdensome, less than 140 water and sewer utilities out of over 1,000 in the state are currently members. He stated that since many utilities have not apparently agreed with the benefits InWarn offers, it is reasonable to leave membership as an elective.

Mr. Gassert agreed with Mr. Kaufman that there should be a 7.5% cap on annual increases and a 25% cap on cumulative increases. He stated these caps will provide meaningful relief to utilities during periods of high inflation while protecting customers from large increases. Mr. Gassert also stated that he agreed a utility should not be able to increase rates through the ARP if the utility's "achieved rate of return" as determined on Schedule F-4 from the Annual Report exceeds its authorized cost of capital from its most recent rate case. However, he stated utilities should have the opportunity to provide corrected Schedule F-4 Forms if the utility can show it is not over-earning.

Mr. Gassert also agreed with Mr. Kaufman's concern that a utility should not be allowed to increase rates via the ARP while simultaneously proposing to increase rates through a general rate increase, and that where a utility is authorized a multi-phased rate increase, the final order in that Cause should clarify how the ARP and multi-phase rate increase will interact and affect rates. Similarly, Mr. Gassert stated that the order approving the ARP should address the situation where a utility participates in the ARP and also files a DSIC.

Finally, Mr. Gassert agreed it was reasonable to revisit the ARP within five years or sooner, if necessary, to review and refine the program.

5. Settlement Agreement. On November 9, 2012, the OUCC and Commission Testimonial Staff Commission filed their Joint Stipulation and Settlement Agreement (“Settlement Agreement”), a copy of which is attached hereto as Attachment 1. The parties agreed to revise the proposed ARP as set forth in Exhibit A to the Settlement Agreement, entitled “ARP Guidelines.” The following is a summary of the agreed revisions:

A. ARP Guidelines and Eligibility Requirements. A water or sewer utility serving fewer than 3,000 customers may apply under this ARP to increase its basic rates no more than five (5) times within a six-year period. The ARP program is only available to jurisdictional water and sewer utilities. Participating utilities must provide primarily retail service to residential customers, and not serve extensively another utility. Upon approval of the ARP, eligible water and sewer utilities may apply annually, beginning the first year after the date of the utility’s most recent general rate order. No increase shall be authorized to commence later than six (6) years from the date of the utility’s most recent general rate order. In the event a utility fails to request an increase in a given year, the utility is not prohibited from filing in subsequent years; however, the utility is not permitted to add increases from years in which it failed to request an increase. Applications may be made by utilities that have received a general rate order issued on or after January 1, 2011.

B. Expenses Eligible for Annual Increase. Any participating utility’s annual increase will be limited to a factor, *i.e.*, the Annual Cost Index, applied to eligible expenses as identified by the Commission in that utility’s rate order. The Annual Cost Index will be applied to eligible expenses, which include E&R but do not include Depreciation Expense. Any utility applying for participation in the ARP that had a general rate order dated between January 1, 2011 and the date of this Order, must request that the Commission identify eligible expenses at the time of its application.

C. Mandatory and Elective Program Elements. Before each annual increase, the utility must meet all mandatory program elements and the requisite number of elective program elements, and must make the required ARP filings. Each elective can be used each year for all five (5) increases, provided the conditions for the elective are met and supporting documents provided to the Commission at the time of application. This applies to all electives except the elective to “Join InWARN,” which can only be used once.

D. Revenue Caps and Limits. Under the ARP, there shall be a cap of 7.5% on the annual increases and a cap of 25% on cumulative increases between any two general rate increases. Also, a utility will not be able to increase rates through the ARP if the utility’s “achieved rate of return,” as determined on Schedule F-4 from the Annual Report, exceeds its authorized cost of capital from its most recent general rate order. A utility will have an opportunity to provide a corrected Schedule F-4 forms if it can show it is not earning in excess of its authorized return.

E. Revisiting of the ARP. No later than five years from the date of this Order, the Commission shall review this ARP to determine whether there are procedural or programmatic issues that necessitate any changes.

6. Testimony in Support of Settlement Agreement. Mr. Gassert provided testimony explaining the resolution reached between the parties. He testified the parties agreed the ARP should apply to any eligible utility that receives a rate order on or after January 1, 2011. The parties also agreed that membership in InWARN would remain an elective as opposed to a mandatory program element. Mr. Gassert explained that while membership in InWARN may be beneficial from a public policy standpoint and should be encouraged when appropriate to the individual utility's unique circumstances, it should not be a mandatory program element because there may be valid reasons for a utility not to belong. He further stated that, as membership in InWARN does not require a great deal of ongoing effort, it should not merit more than one year of "credit" under the ARP as an elective program element.

Mr. Gassert testified the parties agreed the Annual Cost Index would be applied to E&R, but not to depreciation expense. He stated because the Commission allows utilities to recover in rates the depreciation on plant that has been donated, the amount of depreciation expense recovered in rates is already more than fair.

Mr. Gassert explained the parties' agreement concerning certain safeguards against over-earning that are built into the ARP. For example, he noted an investor-owned utility would not be allowed to seek the increase if its "achieved rate of return," as determined on Schedule F-4 from the Annual Report, exceeds its authorized cost of capital from its most recent general rate order. Mr. Gassert also described the caps on the revenues that can be collected through the ARP. Specifically, he noted there is a cap of 7.5% for annual increases and an overall cap on cumulative increases of 25%. He stated that based upon recent experience neither of these caps should come into play.

Mr. Gassert also responded to questions from the Presiding Officers at the November 27, 2012 evidentiary hearing. Specifically, he clarified the reasons that eligibility to participate in the ARP was limited to utilities with 3,000 or fewer customers as opposed to the maximum number of customers authorized under Ind. Code § 8-1-2-61.5 (*i.e.*, 5,000 customers). He stated because this is a pilot program, the parties believed it best to initially limit the number of participants with the option of reviewing the program in 3-5 years to consider whether to expand eligibility to other utilities. He further stated that the smaller utilities are more likely to be struggling to meet their expenses because they do not raise rates often enough, and that larger utilities are better able to manage the costs of a rate case because they have achieved sufficient economies of scale.

7. Commission Discussion and Findings. Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana Gas Co.*, 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy*, 664 N.E.2d 401, 406 (Ind.

Ct. App. 1996)). Thus, the Commission “may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement.” *Citizens Action Coalition*, 664 N.E.2d at 406.

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

As previously indicated, Ind. Code § 8-1-2-61.5(e) authorizes the Commission to enter an order providing for the development, investigation, testing and use of regulatory procedures if, after notice and hearing, it finds that the regulatory procedures or standards are in the public interest and promote at least one of four criteria. As set forth below, the Commission finds the evidence demonstrates the ARP, as modified herein and contained in Attachment 2 to this Order, is reasonable and in the public interest.¹ The evidence further demonstrates that the ARP, as modified, promotes utility cost minimalization, a less costly regulatory procedure and increased utility management efficiency.

Based on the evidence presented, any jurisdictional water or sewer utility serving 3,000 or fewer customers would be eligible to participate in the ARP. The ARP provides for a less costly regulatory procedure than a full rate case, which is expected to result in savings for an eligible utility and its customers. Through the ARP, the utility will be able to obtain controlled annual rate increases that are capped both annually and over the course of five years. In addition, the utility’s participation in the mandatory and elective programs is designed to foster increased management efficiencies and lead to an improvement in the quality of service and facilities. The purpose of the ARP is to incentivize utilities, by means of the annual increase for approved costs, to participate in mandatory and elective programs. These programs were specifically selected to assist utilities in addressing issues associated with the financial, managerial and technical operations of a utility.

For utilities other than those that received a general rate order after January 1, 2011 but prior to this Order, the process will begin with an eligible utility’s filing of a petition for a rate increase or a Small Utility Rate Application. Every ensuing rate order will include a paragraph that identifies the amount of expenses that will be eligible for the annual rate increase. For utilities that have received a general rate order after January 1, 2011 but prior to this Order, the eligible utility shall contact the Water/Wastewater Division of the Commission to identify the expenses eligible for the annual rate increase. At least one year from the rate order, and each year for the next four years, the utility may, but is not required to, apply for a rate increase by

¹ Attachment 2A contains a tracked changes version of the Commission’s modifications to the ARP.

submitting to the Commission a one page form that includes the eligible expenses along with documentation to support that mandatory and elective requirements have been met. The ARP will be administered through the Commission's 30-Day Filing process.

An issue that was raised by the parties, but not specifically addressed in the Settlement Agreement, concerns how the annual increases under the ARP would interrelate with any increase requested in a DSIC proceeding. The ARP, as proposed by the parties, does not limit a utility's ability to file a DSIC proceeding. However, because both an annual rate adjustment under the ARP and a DSIC may result in an increase in rates for customers, we encourage utilities to make their best efforts to combine an annual rate adjustment with a DSIC proceeding to limit customer confusion. In addition, we find that any DSIC rate approved by the Commission for a utility participating in the ARP may not exceed 5% of the utility's base revenues as determined in its most recent base rate case, excluding annual ARP increases.

The Commission also finds that a few additional changes to the ARP Guidelines and the Program Elements in Appendix A should be made for purposes of clarification or correction. The changes to be made (as reflected in Attachments 2 and 2A of this Order) are as follows:

- a. Deletion of the third paragraph under Section A.2. of the ARP Guidelines as duplicative of the requirements contained in the first paragraph;
- b. Additions to Sections A.4 and A.9 of the ARP Guidelines to address when a utility implements less than the allowed annual ARP increase as contemplated by Section A.3;
- c. Additions to Section A.5 regarding how the annual increases under the ARP would interrelate with any requested in a DSIC proceeding;
- d. Deletion of the second sentence of Section A.10 of the ARP Guidelines as unnecessary;
- e. The addition of IDEM compliance related information in Appendix A, Section 1(b);
and
- f. Corrections to website addresses in Appendix A, Sections 2(a), (c) and (h).

Further, the Commission agrees with the parties that it is appropriate to review the ARP no later than five years after implementation to consider whether the program is operating as intended, changes should be made, or the program should be discontinued. Therefore, the Commission finds that the Director of the Water/Wastewater Division shall conduct a review of the ARP and prepare a report detailing its review of the program along with any recommendations concerning further implementation of the ARP. The report shall be filed in this Cause on or before September 1, 2017.

Finally, as contemplated by its terms, the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our findings in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459 (IURC March 19, 1997).

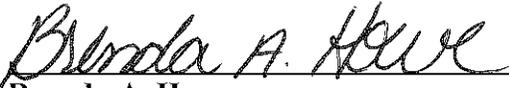
IT IS THEREFORE, ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Settlement Agreement and ARP Guidelines are approved as modified in Attachment 2.
2. The Water/Wastewater Division of the Commission is hereby authorized to implement the Alternative Regulatory Program, as set forth in the ARP Guidelines contained in Attachment 2.
3. This Order shall become effective on and after the date of its approval.

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: MAR 14 2013

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



Brenda A. Howe
Secretary to the Commission

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INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE COMMISSION'S)	
INVESTIGATION INTO THE ADOPTION OF)	CAUSE NO. 44203
ALTERNATIVE REGULATORY PROCEDURES)	
FOR RATE ADJUSTMENTS INVOLVING)	
SMALL WATER AND SEWER UTILITIES)	

JOINT STIPULATION AND SETTLEMENT AGREEMENT

This Joint Stipulation and Settlement Agreement ("Settlement Agreement") is entered into this 9th day of November, 2012, by and between E. Curtis Gassert, Testimonial Staff of the Indiana Utility Regulatory Commission ("Commission") and the Office of the Utility Consumer Counselor ("OUCC"), who stipulate and agree for purposes of settling all matters in this Cause that the terms and conditions set forth below represent a fair and reasonable resolution of all issues in this Cause, subject to their incorporation in a final order of the Commission.

Terms and Conditions of Settlement Agreement

1. Requested Relief: On June 6, 2012, in response to a request submitted by E. Curtis Gassert, the Director of the Water/Wastewater Division of the Commission, the Commission commenced this investigation to consider possible alternative regulatory procedures for the filing of rate adjustments by small water and sewer utilities.

2. Prefiled Evidence of Parties. In support of the proposed Alternative Regulatory Procedure, ("ARP"), E. Curtis Gassert, as Testimonial Staff of the Commission, filed his prefiled Testimony and Exhibits on July 5, 2012. On September 5, 2012 the OUCC filed the Response Testimony of Edward R. Kaufman. Mr. Gassert filed his Rebuttal Testimony on September 21, 2012. No other parties have filed testimony in this matter.

3. Settlement. Through analysis, discussion, and negotiation, as aided by their respective technical staff and experts, the OUCC and the Testimonial Staff of the Commission have now agreed on the terms and conditions as described herein that resolve all issues between them in this Cause.

4. Revised ARP Document. By agreement of the Parties the ARP document as originally filed has been revised to include all agreed upon terms and conditions. This document, entitled "ARP Guidelines", is attached hereto as "Exhibit A".

5. ARP Guidelines and Eligibility Requirements. A water or wastewater utility serving fewer than 3,000 customers may apply under this ARP to increase its basic rates no more than five (5) times within a six year period. The Commission order approving this ARP shall state that the ARP program is only available to water and wastewater utilities. Participating utilities must provide retail service to residential customers, and not serve extensively another utility. From the date of the Commission order approving this Program, eligible water and wastewater utilities may apply annually, beginning the first year after the date of the utility's most recent general rate order. No increase shall be authorized to commence later than six years from the date of the utility's most recent general rate order. In the event a utility fails to request an increase in a given year, the utility is not prohibited from filing in subsequent years; however the utility is not permitted to add increases from years in which it failed to request an increase. Applications may be made by utilities that have received a general rate order issued on or after January 1, 2011.

6. Expenses Eligible for Annual Increase. After the date of the Commission order approving this Program, any participating utility's annual increase will be limited to a factor applied to eligible expenses as identified by the Commission in that utility's rate order. This factor shall be the Annual Cost Index. The Annual Cost Index will be applied to eligible expenses, which include E & R but do not include Depreciation Expense. Any utility applying for this Program that had a general rate order dated January 1, 2011 through the date of the Commission order approving the Program, must request that the Commission identify eligible expenses at the time of its application.

7. Mandatory and Elective Program Elements. Before each annual increase, the utility must meet all mandatory program elements and the requisite number of elective program elements which are identified in Exhibit A, and must make the filings as required by this program. Each elective can be used each year for all five increases provided the conditions for the elective are met and supporting documents provided to the Commission at the time of application. This applies to all electives except the one to "Join InWARN" which can only be used one time.

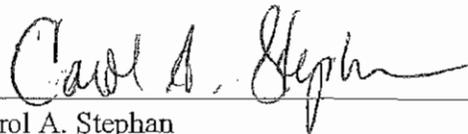
8. Revenue Caps and Limits. Under this Program, there shall be a cap of 7.5% on the annual increases and a cap of 25% on cumulative increases between any two general rate increases. Also, a utility will not be able to increase rates through the ARP if the utility's "achieved rate of return", as determined on Schedule F-4 from the IURC Annual Report Form, exceeds its authorized cost of capital from its most recent final order. Utilities will have an opportunity to provide corrected Schedule F-4 forms if the utility can show it is not earning in excess of its authorized return.

9. Mutual Conditions on Settlement Agreement. If the Commission does not approve this Settlement Agreement or does not issue its final order without modification of the terms stated herein, the entire Settlement Agreement shall be deemed withdrawn, unless otherwise agreed by the Parties. There are no other agreements in existence between the parties relating to the matters covered by this Settlement Agreement that in any way affect this Agreement. If approved by the Commission, this ARP will be reviewed by the Commission to determine whether there are procedural or programmatic issues which would necessitate changes. Such review will take place no later than five years from the date of the order approving the ARP.

10. Non-Precedential. The Parties stipulate and agree that this Settlement Agreement and the Order approving it shall not be used as an admission or as a precedent against the signatories hereto except to the extent necessary to implement or enforce the terms of the Settlement Agreement. The Parties agree that this Settlement Agreement shall not be construed as an admission by any party in any other proceeding, except as necessary to enforce its terms before the Commission, or before any court of competent jurisdiction on these particular issues. This Settlement Agreement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that either of the Parties may take with respect to any or all the items resolved herein in any future regulatory or other proceedings and, failing approval by this Commission, shall not be admissible in any subsequent proceedings.

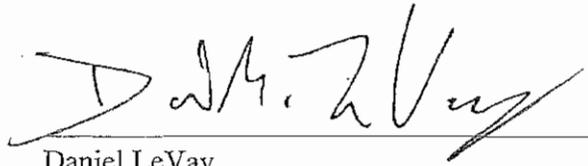
10. Authority to Sign. The Parties represent and stipulate that they are fully authorized to execute this Joint Stipulation and Settlement Agreement on behalf of their designated clients who will be bound thereby.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing Joint Stipulation and Settlement Agreement has been served upon the following counsel of record in the captioned proceeding by electronic service or fax on November 9, 2012.

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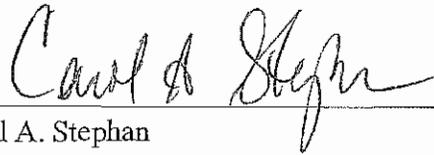
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ARP Guidelines
Alternative Regulatory Ratemaking Procedure
for Small Water and Wastewater Utilities

Introduction

Subject to all qualifications, conditions, limitations and requirements stated herein, a small water or wastewater utility may increase its base rates five (5) times from the date of its most recent general rate order. No increase as described herein shall be authorized to commence later than six years from the date of the utility's most recent general rate order.

A participating utility's annual increase will be limited to a factor applied to eligible expenses identified by the Indiana Utility Regulatory Commission ("Commission") in the participating utility's rate order. This factor shall be the Annual Cost Index described below.

A. Utility Eligibility Requirements

A water or wastewater utility must meet the following requirements in order to be eligible to participate in this program:

- (a) the utility serves fewer than 3,000 customers;
- (b) the utility primarily provides retail service to residential customers;
- (c) the utility does not serve extensively another utility;
- (d) the utility's current rates were set by a general rate order issued after January 1, 2011;
- (e) before each annual increase, the utility has met all mandatory program elements as described herein;
- (f) before each annual increase, the utility has met the requisite number of elective program elements as described herein; and
- (g) before each annual increase, the utility has made the filings as required by this program and received Commission approval.

1. Mandatory Program Requirements

In order to participate and continue to participate in the program, each utility shall meet the mandatory program elements as set forth below (also listed in Appendix A) at the time the utility applies for the annual increase.

Every utility must satisfy the following Mandatory Program Requirements:

- (a). Remain current with IURC requirements,
- (b). Provide Indiana Department of Environmental Management (“IDEM”) information, and
- (c). The utility must be a member of Indiana Underground Plant Protection Service (“IUPPS”)

2. Elective Program Requirements

In order to participate and continue to participate in the program, each utility must select and satisfy the requisite number of elective program requirements as set forth below, (also listed in Appendix A). For the first three annual rate increases, an electing utility must select and satisfy four electives each year. For the fourth year, an electing utility must select and satisfy five electives. For the fifth year, an electing utility must select and satisfy six electives. For each applicable year, all electives shall be completed prior to implementation of the annual rate increase.

Each elective can be used each year for all five increases provided the conditions for the elective are met and supporting documents provided to the IURC at the time of application. This applies to all electives except the one to “Join InWARN” which can only be used one time.

Every utility must select and complete four electives for each year of the first three annual rate increases, five electives must be met to qualify for the fourth annual rate increase, and six electives must be met for the fifth annual rate increase.

- (a). Provide an Asset Management Plan that has been prepared or updated within the last three years.
- (b). Develop or provide existing Standard Operating Procedures.
- (c). Complete the Water System Self Evaluation questionnaire provided by the Maryland Center for Environmental Training.
- (d). Complete Security Vulnerability Assessment and Emergency Response Plan.
- (e). Complete and document routine maintenance across all program areas as applicable to the utility.
- (f). Develop or provide existing map of utility system assets.

- (g). Provide a system Master Plan that has been prepared or updated within the last five years.
- (h). Join Indiana's Water/Wastewater Agency Response Network ("InWARN") as a utility member.
- (i). Maintain lost water below 12% for the most recent 12 month period.
- (j). Conduct a leak/loss survey in the prior year for systems with water loss greater than 15%.
- (k). Reduce lost water by 20% compared to water loss from the prior year.
- (l). Provide to the utility's consumers, at least annually, educational material concerning the wise use of water via a billing insert and provide the same or similar information on the utility's web-site if it has one.
- (m). Develop or provide existing information that supports the existence of written financial policies and procedures and the use of financial budgets.
- (n). Develop or provide an existing Business Plan/Strategic Plan.
- (o). Participate in performance measurement program by providing additional information requested in IURC Annual Report so that all performance measures can be calculated.
- (p). For utilities that elect to participate in the performance measurement program within the first two years, improve 85% of the performance measures by 10% over a three year period without decreasing performance for the remaining 15% of the performance measures.
- (q). At least one utility staff member participates in IURC Water/Wastewater Division sponsored training.
- (r). A member of the Clerk-Treasurer's office of municipal utility system or primary bookkeeper for private utilities holds a minimum of a two year accounting degree.
- (s). Clerk-Treasurer attends or has attended the Indiana State Board of Accounts Clerk-Treasurer training within the last two years.

(t). Two currently serving board members or city/town council members attend Alliance of Indiana Rural Water's Management Conference during the most recent twelve month period.

3. Annual Rate Increase Calculation

A participating utility's annual increase will be limited to a factor applied to the Eligible Expenses identified by the Commission in the participating utility's rate order. This factor shall be determined annually and designated as the "Annual Cost Index". In any rate order issued to a water or wastewater utility with fewer than 3,000 customers, the Commission shall list the eligible expenses that may be multiplied by the Annual Cost Index.

4. Annual Cost Index

For each calendar year, Commission staff shall establish the Annual Cost Index based on a weighted composite of the latest annual indices composed of Labor Index ECI (47.51%), Industrial Electric Power PPI (10.53%), Industrial Chemicals PPI (2.7%), and Other costs-CPI (39.26%) by January 31st of each year.

The Annual Cost Index will apply to all annual increase filings for the twelve month period the index is in effect. Utilities that elect to skip a year, or more, are not permitted to select a potentially larger Annual Cost Index from a previously skipped year, but instead, will be required to apply the Annual Cost Index in effect for the year the annual increase application is filed.

5. Limitations on Increases

The increases authorized under this program shall not exceed 7.5% per year. Cumulative increases shall not exceed 25% on eligible expenses.

Investor-owned utilities will not be eligible to receive an annual increase in any year where the utility's earnings result in a return that exceeds the return authorized in the utility's most recent rate order. The return will be determined using Schedule F-4 of the IURC Annual Report. Utilities will be provided with an opportunity to provide a corrected Schedule F-4 if the utility can show it is not earning in excess of its authorized return.

6. Eligible Expenses

Eligible expenses shall be limited to Extensions and Replacements (E&R - municipal and not-for-profit only) and operating expenses including, but not limited to, the following:

Salary and Wages, Chemical Expense, Pension and Benefits, Bad Debt Expense, Purchased Power Expense, Contractual Services, Maintenance, Transportation, Insurance, Materials and Supplies, Miscellaneous Expenses, Bad Debts, Rent Expense, and Postage.

7. Ineligible Expenses and Revenue Requirements

The following expenses and revenue requirements are not eligible for increases under this program:

Debt Service, Depreciation, Return on Rate Base, Any Amortized Expense, Purchased Water and Purchased Wastewater Treatment expense. Thus, when considering investor-owned utilities, the net operating income (rate base times weighted cost of capital) and the associated income taxes will be the same amounts calculated and approved in the last rate case.

The annual revenue increase will not be augmented with a separate calculation for taxes and expenses related to revenue such as the Utility Receipts Tax and the IURC fee. However, an increase to these amounts is provided because the amounts approved in the rate case will be increased by the Annual Cost Index. Any differences that would be generated from a more precise calculation are not material and do not warrant the additional complexity that would be required.

Because it is difficult to contemplate all possible adjustments to eligible expenses, additional adjustments may be made. However, these adjustments will be limited and will be consistent with the items outlined in this document.

8. Expenses and Revenue Requirements to be Eliminated from Rates

(a) As part of any general rate order for a utility with fewer than 3,000 customers, the Commission shall identify any revenue requirement scheduled or otherwise anticipated to discontinue within six years of the rate order, along with the year the revenue requirement will be discontinued. Such identified revenue requirement shall include but not be limited to debt service for loans paid in full, amortizations of debt service reserve, working capital, rate case expense or other amortized revenue requirement that has been completely amortized thus fully recovered in rates. If a utility has a fully funded debt service reserve, then the Commission may consider this in determining when to remove debt service from revenue requirements.

Therefore, an ordering paragraph may be stated as follows:

If XYZ Utility, Inc. elects to participate in the Program, the eligible operating expenses to which the Annual Cost Index will be applied are \$132,453. This amount excludes \$46,271 approved for purchased water. All other components of the revenue requirement will remain unchanged except that in years four and five, operating expenses shall be reduced by \$15,000 related to rate case expense amortization. Also, in year five, debt service will be excluded to reflect full payment of the utility's outstanding debt obligations.

(b) In the case of a utility rate order that does not identify any such expenses, the utility may request that the Commission identify any such expenses such as debt service, debt service reserve, working capital, or rate case expense and determine which such revenue requirements should be considered to expire within six years of the rate order. A utility shall identify in its application any such authorized revenue requirement when it applies for participation in the program.

(c) In exchange for continued participation in this Program, the utility shall eliminate from its rates any such revenue requirement identified by the Commission. The removal of such revenue requirement from rates shall occur no later than the next annual rate adjustment following the anticipated or actual expiration of the revenue requirement, whichever first shall occur.

9. Application Process

A participating utility shall request each annual rate increase through the 30-day filing process. Under existing 30-day filing procedures, the OUCC will receive a copy on the filing date.

Each year thereafter, the participating utility shall file for the increase through the 30-day filing process. In the event a utility fails to request an increase in a given year, the utility is not prohibited from filing in subsequent years; however, the utility is not permitted to add increases from years in which it failed to request an increase.

Each utility shall complete and submit the one page form provided in Appendix B along with documentation supporting the utility's completion of the Mandatory Program Requirements and the Elective Program Elements selected.

A utility will not be permitted to implement its first annual increase until after 12 months have passed from the date of the utility's most recent rate order. Similarly, subsequent annual increases may not be implemented until 12 months have passed from the date the utility's most recent annual increase was implemented. These provisions do not apply to rate increases that are phased-in over time. However, utilities are encouraged to make their best efforts to combine a phased-in rate increase with an annual increase where the two will be close together to limit customer confusion.

Utilities that received a rate order after January 1, 2011, but before the order date of the Commission order approving this program, will have the opportunity to apply for five annual rate increases during the six year period ending after the date an order is issued approving this program.

10. Simultaneous Applications Prohibited

A participating utility shall not submit a request for general rate increase while an application for rate adjustment under this Program is pending. Once a participating utility files a Petition for general rate increase, any pending application for annual rate increase shall be deemed withdrawn. Once a participating utility has filed a general rate increase, any subsequent application for annual rate increase from a prior order shall not be considered.

Appendix A: Program Elements

1. Mandatory Program Requirements:

Note: If a utility believes the content of its submissions is confidential, it must contact the Indiana Utility Regulatory Commission's ("IURC" or "Commission") Water/Wastewater Division Director before submitting that information.

(a). Current with IURC requirements

- Complete and current IURC Annual Report must be on file with the Commission. A complete IURC Annual Report is one that complies with the directions contained in the annual report forms and accurately reports financial statement information. Completion of data for the performance measurement program is not required unless the utility chooses performance measures as one of its electives. However, all utilities are encouraged to provide all of the performance measurement data requested even if they do not plan to participate in the Program.
- All affiliated contracts must be on file with the Commission.
- All compliance requirements outlined in Commission orders must be current.
- An IURC approved tariff must be on file with the Commission.
- A valid Certificate of Territorial Authority held where required for wastewater utilities.
- Investor-owned and not-for-profit utilities should be current with Public Utility Fee payments.

(b). Provide IDEM Information to the IURC

Provide its Indiana Department of Environmental Management (IDEM) National Pollutant Discharge Elimination System ("NPDES") (wastewater) and/or Public Water System Identification Number PWSID (water) and information concerning its IDEM certified operators as indicated following:

- Each utility shall identify its operator(s) by name, operator number and class.
- A summary of continuing education activity for the previous calendar year shall be provided showing fulfillment of the required contact hours for their specific operator class.

327 IAC 8-12 governs the certification of water system operators, establishes appropriate Classes of certification, and establishes the required continuing education requirements for each class.

327 IAC 5-22 governs the certification of wastewater treatment plant (WWTP) operators, establishes appropriate Classes of certification and establishes the required continuing education requirements for each class.

(c). Indiana Underground Plant Protection Service (IUPPS) membership

The primary purpose of IUPPS (also known as Indiana811 or Call Before You Dig) is to operate and maintain a statewide toll-free one-call notification system to prevent the damage of underground facilities and to facilitate public safety. See www.indiana811.org. For this element to be met, the utility must be shown on the IUPPS web-site as being a member or otherwise demonstrate membership.

2. Elective Program Elements:

(a). Provide an Asset Management Plan that has been prepared or updated within the last three years.

The United States EPA defines Asset Management as a “desired level of service for what you want your assets to provide at the lowest life cycle cost. Lowest life cycle cost refers to the best appropriate cost for rehabilitating, repairing, or replacing an asset.”

An Asset Management Plan (“Plan”): “Monitors and manages the asset wear-out processes and defines the most cost-effective rate of reinvestment.” A utility’s Plan should include an inventory or data base of current assets and the condition and maintenance performed and to be performed on those assets.

To meet this elective, the utility must submit one of the following that has been prepared or updated within the last three years:

- MY CUPSS Plan (EPA’s Check Up Program for Small Systems) www.water.epa.gov/infrastructure/drinkingwater/pws/cupps populated with information specific to the utility; or
- An asset management plan developed by the utility that contains at least all of the elements of the MY CUPSS Plan.

The EPA’s CUPSS program is available at no cost.

(b). Develop or provide existing Standard Operating Procedures (SOPs).

Utility shall develop and maintain standard operating procedures for all significant pieces of equipment, processes and office duties. Elements of the procedures may include:

- Start-up Procedures
- Shut-down Procedures
- Daily Routine Operations
- Safety Practices and Procedures
- Maintenance Procedures
- Troubleshooting Procedures
- Testing and Monitoring Protocol
- Operational Forms and Reports
- Figures and Diagrams
- Day-to-day office tasks

The Rural Community Assistance Partnership (RCAP) has prepared a document titled, “The Big Guide for Small Systems: A Resource for Board Members.” This guide contains an example set of SOPs in its Appendix A. This example is also available in Microsoft Word format and may be a useful starting point. However, as noted in the Appendix, the document is a “tool.” “It is not ready-to-use and should not be distributed as-is.” This guide is free and can be accessed at the following web address: <http://www.rcap.org/commpubs>.

(c). Complete the Water System Self Evaluation questionnaire provided by the Maryland Center for Environmental Training.

Submit a completed Water System Self Evaluation form that can be found at the following web address: <http://www.mcet.org/Resources/publications.html>

(d). Complete a Security Vulnerability Assessment and Emergency Response Plan.

RCAP has developed a toolbox titled “Security and Emergency Response Planning Toolbox for Small Water and Wastewater Systems.” The toolbox includes a “simple and practical vulnerability guide” as well as “emergency-response planning instructions” and “an emergency-response planning template” for small water and wastewater systems. The toolbox is free and is available at the following web address: <http://www.rcap.org/toolbox>.

For this elective to be met, the utility must certify the following:

- a Vulnerability Assessment has been completed and/or updated within the last twelve months consistent with the elements outlined in the RCAP guide.
- an Emergency Response Plan has been completed and/or updated within the last twelve months consistent with the content provided in the template provided by RCAP.

Since these documents may contain sensitive information, only the certification page should be provided to the Commission. However, Commission staff may, on occasion, request a utility to submit the documents for review. These documents will be promptly destroyed after the review is completed.

(e). Complete and document routine maintenance across all program areas as applicable to the utility. Some examples include, but are not limited to:

- Exercise Valves
- Distribution System Flushing
- Televising and Clean Sewer Lines
- Well Maintenance
- Fire Hydrant Testing
- Lift Station Maintenance
- Pump and Motor Maintenance
- Buildings and Ground Maintenance
- Vehicle Maintenance

For this elective to be met, the utility must submit a receipt from the vendor or verification of employee man-hours from utility director or board member which includes a description of the maintenance performed. Written maintenance records should be available for inspection if requested by Commission staff.

(f). Develop or provide existing map of utility system assets.

(i). Water Utilities

The utility shall have system maps showing water utility assets indentifying or referencing main lines (including pipe material and diameter), valves, hydrants, pumping facilities, tanks and other major facilities with at least enough accuracy to determine if facilities are on the correct side of the street or in the street. For this criteria to be met, the utility must submit a verified statement indicating it has maps and submit one sample map for a portion of its system (for example, a map of a street, subdivision or neighborhood showing the various utility assets).

(ii). Wastewater Utilities

The Utility shall have system maps showing wastewater utility assets indentifying or referencing collection lines (including pipe material diameter), force mains (including pipe material diameter), manholes, air release valves, cleanouts, pumping facilities and other major facilities with at least enough accuracy to determine if facilities are on the correct side of the street or in the street. For this criteria to be met, the utility must submit a verified statement indicating it has maps and submit one sample map for a portion of its system (for example, a map of a street, subdivision or neighborhood showing the various utility assets).

(g). Provide a system master plan that has been prepared or updated within the last five years.

A system master plan is an essential tool for every utility to take a forward look at their possible growth patterns and demands to facilitate planning of system expansion and improvements for the next 20 years. A system master plan is one that takes into account at least all of the following:

- The utility's existing and potential service territory;
- Description and inventory of existing system;
- Present and planned land use;
- The current and planned environmental and quality regulations and the ability of the utility system to comply with the regulations;
- Projection of system annual demand and usage for the next 20 years;
- Improvements necessary to meet the projection of system annual demand and usage for the next 20 years with these improvements categorized into priorities or phases;
- Documentation and description of costs associated with planned improvements; and
- A map or system diagram showing general location of proposed improvements.

Master plans are inherently technical documents almost always requiring the use of a Professional Engineer. For this element to be met, a master plan certified by a Professional Engineer must be submitted.

(h). Join InWARN (Indiana's Water/WasteWater Agency Response Network) as a utility member.

InWARN's mission is "To support and promote statewide emergency preparedness, disaster response, and mutual aid between water and wastewater utilities responding to major emergencies" See www.in.uswarn.org. For this element to be met, the utility must be shown on the InWARN web-site as being a member with a completed Mutual Aid Agreement ("MMA") on file.

This Elective can only be used one time during the six year time period.

(i). Maintain lost water below 12% for the most recent 12 month period.

Water Loss shall be defined and reported in a manner consistent with page W-6 (Pumping and Purchased Water

Statistics) of the IURC Annual Report.

(j). Conduct a leak/loss survey in the prior year for systems with water loss greater than 15%.

The Utility must maintain and report evidence documenting that that a leak/loss survey has been conducted on the utility's entire system using best available technologies, the survey is able to locate additional leaks within the survey area, and leaks found have been repaired or have been incorporated into capital improvements to be completed within the next 12 months. Components of a typical leak/loss survey may include:

- Use of sonic leak detection technology and/or data loggers.
- Prompt repair of identified and reported leaks.
- Measurement and analysis of system or area meter data.
- System pressure analysis resulting in pressure management program(s).

(k). Reduce lost water by an additional 20% compared to water loss from the prior year.

Water Loss shall be defined and reported in a manner consistent with page W-6 (Pumping and Purchased Water Statistics) of the IURC Annual Report for two consecutive years.

(l). Provide the utility's consumers educational material concerning the wise use of water via a billing insert and provide the same or similar information on the utility's web-site if it has one. Information provided via billing insert should be provided annually, at a minimum.

The educational material should contain content concerning the following major areas: efficient lawn watering, the amount of water wasted via leaking faucets and toilets, and the amount of water saved by using shower flow restrictors and high efficiency toilets. Examples of such educational material can be found on the web-site of the Office of Utility Consumer Counselor at www.in.gov/oucc or through the American Water Works Association web-site at www.awwa.org

For this elective to be met, the utility must submit a copy of the educational billing insert and provide a link to its web-site, if it has one, providing the educational material.

(m). Develop or provide existing information regarding written financial policies and procedures and the use of financial budgets.

In order to obtain credit for this elective, a utility needs to submit the following:

- Written financial policies and procedures.
- Copies of monthly financial statements for the most recent twelve month period that show comparisons of actual amounts to budgeted amounts. Written explanations should be provided for significant differences between budgeted and actual amounts.

- A five-year capital budget or Capital Improvement Plan showing individual assets the utility intends to purchase over each of the next five years.

The RCAP has prepared a document titled, “The Basics of Financial Management for Small-community Utilities.” This guide contains an example set of financial management policies as part of Chapter 1. This example is also available in Microsoft Word format and may be a useful starting point. However, as noted in Chapter 1, the “sample policies are not ready-to-use and should not be adopted or distributed as-is.” Chapter 2 provides information about capital improvement plans while Chapters 3 and 4 provide operating budget information. This document is free and can be accessed at the following web address:
<http://www.rcap.org/finmgmtguide>.

(n). Develop or provide an existing Business Plan/Strategic Plan.

A Business Plan or Strategic Plan should include vision, mission and organizational values statements. Contemplation of internal and external factors that could impact the utility should be evaluated. An assessment of the utility’s strengths and weaknesses or opportunities for improvement for the next 3 to 5 years should also be identified. An acceptable Business Plan should provide analysis and selection of strategies in each of the following areas of water and/or wastewater system management:

- Customer service
- Finance
- Human resources management
- Business process improvement
- Short- and long-term action plans that include allocation of resources directed at achieving the goals and strategies the utility has adopted; and
- A process for strategic plan development and annual review/updates that facilitate input from customers, employees and other stakeholders.
- Regulatory Compliance

(o). Participate in performance measurement program by providing additional information requested in IURC Annual Report so that performance measures can be calculated.

The Commission’s Water/Wastewater Division developed a Performance Measurement program that has been incorporated into the IURC Annual Report due every April 30th. In order to calculate all of the performance measures, additional information is required beyond that which is necessary to complete the Annual Report. Utilities that provide the additional information will receive credit for this elective.

Utilities that participate in the performance measurement program will receive their results along with the results of other utilities that provide the necessary information. To understand

the additional information required to participate in the performance measurement program, please review the IURC Annual Report.

(p). For utilities that elect to participate in the performance measurement program within the first two years, improve 85% of the performance measures by 10% over a three year period without decreasing performance for the remaining 15% of the performance measures.

Given the requirements of this elective, a utility could only receive credit for this elective in the fourth year if the utility participated in the performance measurement program in year one or in the fifth year if the utility initiated participation in year two.

(q). At least one utility staff member participates in IURC Water/Wastewater Division sponsored training.

The IURC's Water/Wastewater Division sponsors a one-day training program that provides training about IURC specific matters along with other utility issues. If at least one utility employee attends a training program, the utility will receive credit for one elective. Additional credits will not be provided for multiple attendees.

(r). A member of the Clerk-treasurer's office of municipal utility system or primary bookkeeper for private utilities holds a minimum of a two year accounting degree.

Provide a copy of the degree or other school documentation that supports the stated requirements.

(s). Clerk-treasurer attends or has attended the Indiana State Board of Accounts clerk-treasurer training within the last two years.

Provide documentation that supports attendance or a verified statement of attendance.

Information about the training can be found on the Indiana State Board of Accounts website at <http://www.in.gov/sboa/index.htm>.

(t). Two currently serving board members or city/town council members attend Alliance of Indiana Rural Water's Management Conference during the most recent twelve month period.

Provide documentation that supports attendance for two board members or city/town council members.

Information about the conference can be found on the Alliance of Indiana Rural Water's website at <http://www.inh2o.org/>.

Appendix II: Forms

Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Municipal and Not-for-Profit Utility Form

Utility Name:							
Rate Case Cause No./Date Approved:							
Description	Rev. Reqmts. from last Rate Order	Adjustments	Revenue Requirements for Annual Rate Increase Program				
			Year 1	Year 2	Year 3	Year 4	Year 5
1 Operating Expenses			\$ -	\$ -	\$ -	\$ -	\$ -
2 Payment in Lieu of Taxes			-	-	-	-	-
3 Extensions & Replacements			-	-	-	-	-
4 Taxes Other Than Income			-	-	-	-	-
5 Prior Year "Cost" Increases (Cumulative)			-	-	-	-	-
6 Revenue Requirement Subject to Annual Increase	-		-	-	-	-	-
7 Times: Annual Cost Index (IURC Small Utility Cost Index)	N/A						
8 Annual Revenue Increase	-		-	-	-	-	-
9 Allowable but Unadjustable Operating Expense	-		-	-	-	-	-
10 Working Capital			-	-	-	-	-
11 Debt Service			-	-	-	-	-
12 Total Revenue Requirements	-		-	-	-	-	-
13 Less: Interest Income			-	-	-	-	-
14 Other Revenues	-		-	-	-	-	-
15 Net Revenue Requirements	-		-	-	-	-	-
16 Less: Revenues at Current Rates			-	-	-	-	-
17 Required Revenue Increase	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
18 Revenue Not Subject to Increase at Present Rates			\$ -	\$ -	\$ -	\$ -	\$ -
19 Revenue Subject to Increase (Line 16-Line 18)	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
20 Percentage Increase (Line 17/Line 19)	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Investor-Owned Utility Form

Utility Name:								
Rate Case Cause No./Date Approved:								
		Rev. Reqmts. from last		Revenue Requirements for Annual Rate Increase Program				
Description	Rate Order	Adjustments	Year 1	Year 2	Year 3	Year 4	Year 5	
1 Operating Expenses			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 Taxes Other Than Income			-	-	-	-	-	-
3 Prior Year "Cost" Increases (Cumulative)	-		-	-	-	-	-	-
4 Revenue Requirements Subject to Annual Increase	-		-	-	-	-	-	-
5 Times: Annual Cost Index (IURC Small Utility Cost Index)	N/A							
6 Total: Adjustable Revenue Requirements	-		-	-	-	-	-	-
7 Allowable but Unadjustable Operating Expenses			-	-	-	-	-	-
8 Depreciation Expense			-	-	-	-	-	-
9 Income Taxes			-	-	-	-	-	-
10 Net Operating Income			-	-	-	-	-	-
11 Total Revenue Requirements	-		-	-	-	-	-	-
12 Less Revenues at Current Rates			-	-	-	-	-	-
13 Revenue Increase Required	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14 Revenue Not Subject to Increase at Present Rates			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15 Revenue Subject to Increase (Line 12-Line 14)	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16 Percentage Increase (Line 13/Line 15)	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

ATTACHMENT 2

ARP Guidelines Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Introduction

Subject to all qualifications, conditions, limitations and requirements stated herein, a small water or wastewater utility may increase its base rates five (5) times from the date of its most recent general rate order. No increase as described herein shall be authorized to commence later than six years from the date of the utility's most recent general rate order.

A participating utility's annual increase will be limited to a factor applied to eligible expenses identified by the Indiana Utility Regulatory Commission ("Commission") in the participating utility's rate order. This factor shall be the Annual Cost Index described below.

A. Utility Eligibility Requirements

A water or wastewater utility must meet the following requirements in order to be eligible to participate in this program:

- (a) the utility serves fewer than 3,000 customers;
- (b) the utility primarily provides retail service to residential customers;
- (c) the utility does not serve extensively another utility;
- (d) the utility's current rates were set by a general rate order issued after January 1, 2011;
- (e) before each annual increase, the utility has met all mandatory program elements as described herein;
- (f) before each annual increase, the utility has met the requisite number of elective program elements as described herein; and
- (g) before each annual increase, the utility has made the filings as required by this program and received Commission approval.

1. Mandatory Program Requirements

In order to participate and continue to participate in the program, each utility shall meet the mandatory program elements as set forth below (also listed in Appendix A) at the time the utility applies for the annual increase.

Every utility must satisfy the following Mandatory Program Requirements:

- (a). Remain current with IURC requirements,
- (b). Provide Indiana Department of Environmental Management (“IDEM”) information, and
- (c). The utility must be a member of Indiana Underground Plant Protection Service (“IUPPS”)

2. Elective Program Requirements

In order to participate and continue to participate in the program, each utility must select and satisfy the requisite number of elective program requirements as set forth below, (also listed in Appendix A). For the first three annual rate increases, an electing utility must select and satisfy four electives each year. For the fourth year, an electing utility must select and satisfy five electives. For the fifth year, an electing utility must select and satisfy six electives. For each applicable year, all electives shall be completed prior to implementation of the annual rate increase.

Each elective can be used each year for all five increases provided the conditions for the elective are met and supporting documents provided to the IURC at the time of application. This applies to all electives except the one to “Join InWARN” which can only be used one time.

- (a). Provide an Asset Management Plan that has been prepared or updated within the last three years.
- (b). Develop or provide existing Standard Operating Procedures.
- (c). Complete the Water System Self Evaluation questionnaire provided by the Maryland Center for Environmental Training.
- (d). Complete Security Vulnerability Assessment and Emergency Response Plan.
- (e). Complete and document routine maintenance across all program areas as applicable to the utility.
- (f). Develop or provide existing map of utility system assets.
- (g). Provide a system Master Plan that has been prepared or updated within the last five years.

- (h). Join Indiana's Water/Wastewater Agency Response Network ("InWARN") as a utility member.
- (i). Maintain lost water below 12% for the most recent 12 month period.
- (j). Conduct a leak/loss survey in the prior year for systems with water loss greater than 15%.
- (k). Reduce lost water by 20% compared to water loss from the prior year.
- (l). Provide to the utility's consumers, at least annually, educational material concerning the wise use of water via a billing insert and provide the same or similar information on the utility's web-site if it has one.
- (m). Develop or provide existing information that supports the existence of written financial policies and procedures and the use of financial budgets.
- (n). Develop or provide an existing Business Plan/Strategic Plan.
- (o). Participate in performance measurement program by providing additional information requested in IURC Annual Report so that all performance measures can be calculated.
- (p). For utilities that elect to participate in the performance measurement program within the first two years, improve 85% of the performance measures by 10% over a three year period without decreasing performance for the remaining 15% of the performance measures.
- (q). At least one utility staff member participates in IURC Water/Wastewater Division sponsored training.
- (r). A member of the Clerk-Treasurer's office of municipal utility system or primary bookkeeper for private utilities holds a minimum of a two year accounting degree.
- (s). Clerk-Treasurer attends or has attended the Indiana State Board of Accounts Clerk-Treasurer training within the last two years.

(t). Two currently serving board members or city/town council members attend Alliance of Indiana Rural Water's Management Conference during the most recent twelve month period.

3. Annual Rate Increase Calculation

A participating utility's annual increase will be limited to a factor applied to the Eligible Expenses identified by the Commission in the participating utility's rate order. This factor shall be determined annually and designated as the "Annual Cost Index". In any rate order issued to a water or wastewater utility with fewer than 3,000 customers, the Commission shall list the eligible expenses that may be multiplied by the Annual Cost Index.

4. Annual Cost Index

For each calendar year, Commission staff shall establish the Annual Cost Index based on a weighted composite of the latest annual indices composed of Labor Index ECI (47.51%), Industrial Electric Power PPI (10.53%), Industrial Chemicals PPI (2.7%), and Other costs-CPI (39.26%) by January 31st of each year.

The Annual Cost Index will apply to all annual increase filings for the twelve month period the index is in effect. Utilities that elect to skip a year, or more, or opt to not apply the full Annual Cost Index factor increase in any given year, are not permitted to select a potentially larger Annual Cost Index from a previous year, but instead, will be required to apply the Annual Cost Index in effect for the year the annual increase application is filed.

5. Limitations on Increases

The increases authorized under this program shall not exceed 7.5% per year. Cumulative increases shall not exceed 25% on eligible expenses.

Investor-owned utilities will not be eligible to receive an annual increase in any year where the utility's earnings result in a return that exceeds the return authorized in the utility's most recent rate order. The return will be determined using Schedule F-4 of the IURC Annual Report. Utilities will be provided with an opportunity to provide a corrected Schedule F-4 if the utility can show it is not earning in excess of its authorized return.

For a utility that participates in this program and also implements a Distribution System Improvement Charge ("DSIC"), the utility customers could receive a rate increase more frequently than every twelve months. Utilities are encouraged to make their best efforts to combine a DSIC increase with an annual program increase where the two will be close together to limit customer confusion. Any DSIC rate approved by the Commission may not exceed the statutory cap on DSIC revenues based on the utility's base revenues as determined in its most recent general rate case, excluding annual ARP increases.

6. Eligible Expenses

Eligible expenses shall be limited to Extensions and Replacements (E&R - municipal and not-for-profit only) and operating expenses including, but not limited to, the following:

Salary and Wages, Chemical Expense, Pension and Benefits, Bad Debt Expense, Purchased Power Expense, Contractual Services, Maintenance, Transportation, Insurance, Materials and Supplies, Miscellaneous Expenses, Bad Debts, Rent Expense, and Postage.

7. Ineligible Expenses and Revenue Requirements

The following expenses and revenue requirements are not eligible for increases under this program:

Debt Service, Depreciation, Return on Rate Base, Any Amortized Expense, Purchased Water and Purchased Wastewater Treatment expense. Thus, when considering investor-owned utilities, the net operating income (rate base times weighted cost of capital) and the associated income taxes will be the same amounts calculated and approved in the last rate case.

The annual revenue increase will not be augmented with a separate calculation for taxes and expenses related to revenue such as the Utility Receipts Tax and the IURC fee. However, an increase to these amounts is provided because the amounts approved in the rate case will be increased by the Annual Cost Index. Any differences that would be generated from a more precise calculation are not material and do not warrant the additional complexity that would be required.

Because it is difficult to contemplate all possible adjustments to eligible expenses, additional adjustments may be made. However, these adjustments will be limited and will be consistent with the items outlined in this document.

8. Expenses and Revenue Requirements to be Eliminated from Rates

(a) As part of any general rate order for a utility with fewer than 3,000 customers, the Commission shall identify any revenue requirement scheduled or otherwise anticipated to discontinue within six years of the rate order, along with the year the revenue requirement will be discontinued. Such identified revenue requirement shall include but not be limited to debt service for loans paid in full, amortizations of debt service reserve, working capital, rate case expense or other amortized revenue requirement that has been completely amortized thus fully recovered in rates. If a utility has a fully funded debt service reserve, then the Commission may consider this in determining when to remove debt service from revenue requirements.

Therefore, an ordering paragraph may be stated as follows:

If XYZ Utility, Inc. elects to participate in the Program, the eligible operating expenses to which the Annual Cost Index will be applied are \$132,453. This amount excludes \$46,271 approved for purchased water. All other components of the revenue requirement will remain unchanged except that in years four and five, operating expenses shall be reduced by \$15,000 related to rate case expense amortization. Also, in year five, debt service will be excluded to reflect full payment of the utility's outstanding debt obligations.

(b) In the case of a utility rate order that does not identify any such expenses, the utility may request that the Commission identify any such expenses such as debt service, debt service reserve, working capital, or rate case expense and determine which such revenue requirements should be considered to expire within six years of the rate order. A utility shall identify in its application any such authorized revenue requirement when it applies for participation in the program.

(c) In exchange for continued participation in this Program, the utility shall eliminate from its rates any such revenue requirement identified by the Commission. The removal of such revenue requirement from rates shall occur no later than the next annual rate adjustment following the anticipated or actual expiration of the revenue requirement, whichever first shall occur.

9. Application Process

A participating utility shall request each annual rate increase through the 30-day filing process. Under existing 30-day filing procedures, the OUCC will receive a copy on the filing date.

Each year thereafter, the participating utility shall file for the increase through the 30-day filing process. In the event a utility fails to request an increase in a given year, the utility is not prohibited from filing in subsequent years; however, the utility is not permitted to add increases from years in which it failed to request an increase or elected to not apply the full allowed increase.

Each utility shall complete and submit the one page form provided in Appendix B along with documentation supporting the utility's completion of the Mandatory Program Requirements and the Elective Program Elements selected.

A utility will not be permitted to implement its first annual increase until after 12 months have passed from the date of the utility's most recent rate order. Similarly, subsequent annual increases may not be implemented until 12 months have passed from the date the utility's most recent annual increase was implemented. These provisions do not apply to rate increases that are phased-in over time. However, utilities are encouraged to make their best efforts to combine a

phased-in rate increase with an annual increase where the two will be close together to limit customer confusion.

Utilities that received a rate order after January 1, 2011, but before the order date of the Commission order approving this program, will have the opportunity to apply for five annual rate increases during the six year period ending after the date an order is issued approving this program.

10. Simultaneous Applications Prohibited

A participating utility shall not submit a request for general rate increase while an application for rate adjustment under this Program is pending. Once a participating utility has filed a general rate increase, any subsequent application for annual rate increase from a prior order shall not be considered.

Appendix A: Program Elements

1. Mandatory Program Requirements:

Note: If a utility believes the content of its submissions is confidential, it must contact the Indiana Utility Regulatory Commission's ("IURC" or "Commission") Water/Wastewater Division Director before submitting that information.

(a). Current with IURC requirements

- Complete and current IURC Annual Report must be on file with the Commission. A complete IURC Annual Report is one that complies with the directions contained in the annual report forms and accurately reports financial statement information. Completion of data for the performance measurement program is not required unless the utility chooses performance measures as one of its electives. However, all utilities are encouraged to provide all of the performance measurement data requested even if they do not plan to participate in the Program.
- All affiliated contracts must be on file with the Commission.
- All compliance requirements outlined in Commission orders must be current.
- An IURC approved tariff must be on file with the Commission.
- A valid Certificate of Territorial Authority held where required for wastewater utilities.
- Investor-owned and not-for-profit utilities should be current with Public Utility Fee payments.

(b). Provide IDEM Information to the IURC

Provide its Indiana Department of Environmental Management (IDEM) National Pollutant Discharge Elimination System ("NPDES") (wastewater) and/or Public Water System Identification Number PWSID (water) and information concerning its IDEM certified operators and compliance with permit requirements as indicated:

- Each utility shall identify its operator(s) by name, operator number and class.
- A summary of continuing education activity for the previous calendar year shall be provided showing fulfillment of the required contact hours for their specific operator class.
- A statement concerning compliance with permit requirements for the previous calendar year.

327 IAC 8-12 governs the certification of water system operators, establishes appropriate Classes of certification, and establishes the required continuing education requirements for each class.

327 IAC 5-22 governs the certification of wastewater treatment plant (WWTP) operators, establishes appropriate Classes of certification and establishes the required continuing education requirements for each class.

(c). Indiana Underground Plant Protection Service (IUPPS) membership

The primary purpose of IUPPS (also known as Indiana811 or Call Before You Dig) is to operate and maintain a statewide toll-free one-call notification system to prevent the damage of underground facilities and to facilitate public safety. See www.indiana811.org. For this element to be met, the utility must be shown on the IUPPS web-site as being a member or otherwise demonstrate membership.

2. Elective Program Elements:

(a). Provide an Asset Management Plan that has been prepared or updated within the last three years.

The United States EPA defines Asset Management as a “desired level of service for what you want your assets to provide at the lowest life cycle cost. Lowest life cycle cost refers to the best appropriate cost for rehabilitating, repairing, or replacing an asset.”

An Asset Management Plan (“Plan”): “Monitors and manages the asset wear-out processes and defines the most cost-effective rate of reinvestment.” A utility’s Plan should include an inventory or data base of current assets and the condition and maintenance performed and to be performed on those assets.

To meet this elective, the utility must submit one of the following that has been prepared or updated within the last three years:

- MY CUPSS Plan (EPA’s Check Up Program for Small Systems)
<http://water.epa.gov/infrastructure/drinkingwater/pws/cupss> populated with information specific to the utility; or
- An asset management plan developed by the utility that contains at least all of the elements of the MY CUPSS Plan.

The EPA’s CUPSS program is available at no cost.

(b). Develop or provide existing Standard Operating Procedures (SOPs).

Utility shall develop and maintain standard operating procedures for all significant pieces of equipment, processes and office duties. Elements of the procedures may include:

- Start-up Procedures
- Shut-down Procedures
- Daily Routine Operations
- Safety Practices and Procedures
- Maintenance Procedures
- Troubleshooting Procedures
- Testing and Monitoring Protocol
- Operational Forms and Reports
- Figures and Diagrams
- Day-to-day office tasks

The Rural Community Assistance Partnership (RCAP) has prepared a document titled, “The Big Guide for Small Systems: A Resource for Board Members.” This guide contains an example set of SOPs in its Appendix A. This example is also available in Microsoft Word format and may be a useful starting point. However, as noted in the Appendix, the document is a “tool.” “It is not ready-to-use and should not be distributed as-is.” This guide is free and can be accessed at the following web address: <http://www.rcap.org/commpubs>.

(c). Complete the Water System Self Evaluation questionnaire provided by the Maryland Center for Environmental Training.

Submit a completed Water System Self Evaluation form that can be found at the following web address: <http://www.mcet.org/Resources/Toolkit2.html>

(d). Complete a Security Vulnerability Assessment and Emergency Response Plan.

RCAP has developed a toolbox titled “Security and Emergency Response Planning Toolbox for Small Water and Wastewater Systems.” The toolbox includes a “simple and practical vulnerability guide” as well as “emergency-response planning instructions” and “an emergency-response planning template” for small water and wastewater systems. The toolbox is free and is available at the following web address: <http://www.rcap.org/toolbox>.

For this elective to be met, the utility must certify the following:

- a Vulnerability Assessment has been completed and/or updated within the last twelve months consistent with the elements outlined in the RCAP guide.
- an Emergency Response Plan has been completed and/or updated within the last twelve months consistent with the content provided in the template provided by RCAP.

Since these documents may contain sensitive information, only the certification page should be provided to the Commission. However, Commission staff may, on occasion, request a utility to submit the documents for review. These documents will be promptly destroyed after the review is completed.

(e). Complete and document routine maintenance across all program areas as applicable to the utility. Some examples include, but are not limited to:

- Exercise Valves
- Distribution System Flushing
- Televising and Clean Sewer Lines
- Well Maintenance
- Fire Hydrant Testing
- Lift Station Maintenance
- Pump and Motor Maintenance
- Buildings and Ground Maintenance
- Vehicle Maintenance

For this elective to be met, the utility must submit a receipt from the vendor or verification of employee man-hours from utility director or board member which includes a description of the maintenance performed. Written maintenance records should be available for inspection if requested by Commission staff.

(f). Develop or provide existing map of utility system assets.

(i). Water Utilities

The utility shall have system maps showing water utility assets indentifying or referencing main lines (including pipe material and diameter), valves, hydrants, pumping facilities, tanks and other major facilities with at least enough accuracy to determine if facilities are on the correct side of the street or in the street. For this criteria to be met, the utility must submit a verified statement indicating it has maps and submit one sample map for a portion of its system (for example, a map of a street, subdivision or neighborhood showing the various utility assets).

(ii). Wastewater Utilities

The Utility shall have system maps showing wastewater utility assets indentifying or referencing collection lines (including pipe material diameter), force mains (including pipe material diameter), manholes, air release valves, cleanouts, pumping facilities and other major facilities with at least enough accuracy to determine if facilities are on the correct side of the street or in the street. For this criteria to be met, the utility must submit a verified statement indicating it has maps and submit one sample map for a portion of its system (for example, a map of a street, subdivision or neighborhood showing the various utility assets).

(g). Provide a system master plan that has been prepared or updated within the last five years.

A system master plan is an essential tool for every utility to take a forward look at their possible growth patterns and demands to facilitate planning of system expansion and improvements for the next 20 years. A system master plan is one that takes into account at least all of the following:

- The utility's existing and potential service territory;
- Description and inventory of existing system;
- Present and planned land use;
- The current and planned environmental and quality regulations and the ability of the utility system to comply with the regulations;
- Projection of system annual demand and usage for the next 20 years;
- Improvements necessary to meet the projection of system annual demand and usage for the next 20 years with these improvements categorized into priorities or phases;
- Documentation and description of costs associated with planned improvements; and
- A map or system diagram showing general location of proposed improvements.

Master plans are inherently technical documents almost always requiring the use of a Professional Engineer. For this element to be met, a master plan certified by a Professional Engineer must be submitted.

(h). Join InWARN (Indiana's Water/WasteWater Agency Response Network) as a utility member.

InWARN's mission is "To support and promote statewide emergency preparedness, disaster response, and mutual aid between water and wastewater utilities responding to major emergencies" <http://in.uswarn.org>. For this element to be met, the utility must be shown on the InWARN web-site as being a member with a completed Mutual Aid Agreement ("MMA") on file.

This Elective can only be used one time during the six year time period.

(i). Maintain lost water below 12% for the most recent 12 month period.

Water Loss shall be defined and reported in a manner consistent with page W-6 (Pumping and Purchased Water

Statistics) of the IURC Annual Report.

(j). Conduct a leak/loss survey in the prior year for systems with water loss greater than 15%.

The Utility must maintain and report evidence documenting that that a leak/loss survey has been conducted on the utility's entire system using best available technologies, the survey is able to locate additional leaks within the survey area, and leaks found have been repaired or have been incorporated into capital improvements to be completed within the next 12 months. Components of a typical leak/loss survey may include:

- Use of sonic leak detection technology and/or data loggers.
- Prompt repair of identified and reported leaks.
- Measurement and analysis of system or area meter data.
- System pressure analysis resulting in pressure management program(s).

(k). Reduce lost water by an additional 20% compared to water loss from the prior year.

Water Loss shall be defined and reported in a manner consistent with page W-6 (Pumping and Purchased Water Statistics) of the IURC Annual Report for two consecutive years.

(l). Provide the utility's consumers educational material concerning the wise use of water via a billing insert and provide the same or similar information on the utility's web-site if it has one. Information provided via billing insert should be provided annually, at a minimum.

The educational material should contain content concerning the following major areas: efficient lawn watering, the amount of water wasted via leaking faucets and toilets, and the amount of water saved by using shower flow restrictors and high efficiency toilets. Examples of such educational material can be found on the web-site of the Office of Utility Consumer Counselor at www.in.gov/oucc or through the American Water Works Association web-site at www.awwa.org

For this elective to be met, the utility must submit a copy of the educational billing insert and provide a link to its web-site, if it has one, providing the educational material.

(m). Develop or provide existing information regarding written financial policies and procedures and the use of financial budgets.

In order to obtain credit for this elective, a utility needs to submit the following:

- Written financial policies and procedures.
- Copies of monthly financial statements for the most recent twelve month period that show comparisons of actual amounts to budgeted amounts. Written explanations should be provided for significant differences between budgeted and actual amounts.

- A five-year capital budget or Capital Improvement Plan showing individual assets the utility intends to purchase over each of the next five years.

The RCAP has prepared a document titled, “The Basics of Financial Management for Small-community Utilities.” This guide contains an example set of financial management policies as part of Chapter 1. This example is also available in Microsoft Word format and may be a useful starting point. However, as noted in Chapter 1, the “sample policies are not ready-to-use and should not be adopted or distributed as-is.” Chapter 2 provides information about capital improvement plans while Chapters 3 and 4 provide operating budget information. This document is free and can be accessed at the following web address: <http://www.rcap.org/finmgmtguide>.

(n). Develop or provide an existing Business Plan/Strategic Plan.

A Business Plan or Strategic Plan should include vision, mission and organizational values statements. Contemplation of internal and external factors that could impact the utility should be evaluated. An assessment of the utility’s strengths and weaknesses or opportunities for improvement for the next 3 to 5 years should also be identified. An acceptable Business Plan should provide analysis and selection of strategies in each of the following areas of water and/or wastewater system management:

- Customer service
- Finance
- Human resources management
- Business process improvement
- Short- and long-term action plans that include allocation of resources directed at achieving the goals and strategies the utility has adopted
- A process for strategic plan development and annual review/updates that facilitate input from customers, employees and other stakeholders
- Regulatory Compliance

(o). Participate in performance measurement program by providing additional information requested in IURC Annual Report so that performance measures can be calculated.

The Commission’s Water/Wastewater Division developed a Performance Measurement program that has been incorporated into the IURC Annual Report due every April 30th. In order to calculate all of the performance measures, additional information is required beyond that which is necessary to complete the Annual Report. Utilities that provide the additional information will receive credit for this elective.

Utilities that participate in the performance measurement program will receive their results along with the results of other utilities that provide the necessary information. To understand

the additional information required to participate in the performance measurement program, please review the IURC Annual Report.

(p). For utilities that elect to participate in the performance measurement program within the first two years, improve 85% of the performance measures by 10% over a three year period without decreasing performance for the remaining 15% of the performance measures.

Given the requirements of this elective, a utility could only receive credit for this elective in the fourth year if the utility participated in the performance measurement program in year one or in the fifth year if the utility initiated participation in year two.

(q). At least one utility staff member participates in IURC Water/Wastewater Division sponsored training.

The IURC's Water/Wastewater Division sponsors a one-day training program that provides training about IURC specific matters along with other utility issues. If at least one utility employee attends a training program, the utility will receive credit for one elective. Additional credits will not be provided for multiple attendees.

(r). A member of the Clerk-treasurer's office of municipal utility system or primary bookkeeper for private utilities holds a minimum of a two year accounting degree.

Provide a copy of the degree or other school documentation that supports the stated requirements.

(s). Clerk-treasurer attends or has attended the Indiana State Board of Accounts clerk-treasurer training within the last two years.

Provide documentation that supports attendance or a verified statement of attendance.

Information about the training can be found on the Indiana State Board of Accounts website at <http://www.in.gov/sboa/index.htm>.

(t). Two currently serving board members or city/town council members attend Alliance of Indiana Rural Water's Management Conference during the most recent twelve month period.

Provide documentation that supports attendance for two board members or city/town council members.

Information about the conference can be found on the Alliance of Indiana Rural Water's website at <http://www.inh2o.org/>.

Appendix II: Forms

Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Municipal and Not-for-Profit Utility Form

Utility Name:							
Rate Case Cause No./Date Approved:							
Description	Rev. Reqmts. from last	Adjustments	Revenue Requirements for Annual Rate Increase Program				
	Rate Order		Year 1	Year 2	Year 3	Year 4	Year 5
1 Operating Expenses			\$ -	\$ -	\$ -	\$ -	\$ -
2 Payment in Lieu of Taxes			-	-	-	-	-
3 Extensions & Replacements			-	-	-	-	-
4 Taxes Other Than Income			-	-	-	-	-
5 Prior Year "Cost" Increases (Cumulative)			-	-	-	-	-
6 Revenue Requirement Subject to Annual Increase	-		-	-	-	-	-
7 Times: Annual Cost Index (IURC Small Utility Cost Index)	N/A						
8 Annual Revenue Increase	-		-	-	-	-	-
9 Allowable but Unadjustable Operating Expense	-		-	-	-	-	-
10 Working Capital			-	-	-	-	-
11 Debt Service			-	-	-	-	-
12 Total Revenue Requirements	-		-	-	-	-	-
13 Less: Interest Income			-	-	-	-	-
14 Other Revenues	-		-	-	-	-	-
15 Net Revenue Requirements	-		-	-	-	-	-
16 Less: Revenues at Current Rates			-	-	-	-	-
17 Required Revenue Increase	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
18 Revenue Not Subject to Increase at Present Rates			\$ -	\$ -	\$ -	\$ -	\$ -
19 Revenue Subject to Increase (Line 16-Line 18)	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
20 Percentage Increase (Line 17/Line 19)	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Investor-Owned Utility Form

Utility Name:							
Rate Case Cause No./Date Approved:							
	Rev. Reqmts. from last		Revenue Requirements for Annual Rate Increase Program				
Description	Rate Order	Adjustments	Year 1	Year 2	Year 3	Year 4	Year 5
1 Operating Expenses			\$ -	\$ -	\$ -	\$ -	\$ -
2 Taxes Other Than Income			-	-	-	-	-
3 Prior Year "Cost" Increases (Cumulative)	-		-	-	-	-	-
4 Revenue Requirements Subject to Annual Increase	-		-	-	-	-	-
5 Times: Annual Cost Index (IURC Small Utility Cost Index)	N/A						
6 Total: Adjustable Revenue Requirements	-		-	-	-	-	-
7 Allowable but Unadjustable Operating Expenses			-	-	-	-	-
8 Depreciation Expense			-	-	-	-	-
9 Income Taxes			-	-	-	-	-
10 Net Operating Income			-	-	-	-	-
11 Total Revenue Requirements	-		-	-	-	-	-
12 Less Revenues at Current Rates			-	-	-	-	-
13 Revenue Increase Required	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
14 Revenue Not Subject to Increase at Present Rates			\$ -	\$ -	\$ -	\$ -	\$ -
15 Revenue Subject to Increase (Line 12-Line 14)	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
16 Percentage Increase (Line 13/Line 15)	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

ATTACHMENT 2A

**ARP Guidelines
Alternative Regulatory Ratemaking Procedure
for Small Water and Wastewater Utilities**

Introduction

Subject to all qualifications, conditions, limitations and requirements stated herein, a small water or wastewater utility may increase its base rates five (5) times from the date of its most recent general rate order. No increase as described herein shall be authorized to commence later than six years from the date of the utility's most recent general rate order.

A participating utility's annual increase will be limited to a factor applied to eligible expenses identified by the Indiana Utility Regulatory Commission ("Commission") in the participating utility's rate order. This factor shall be the Annual Cost Index described below.

A. Utility Eligibility Requirements

A water or wastewater utility must meet the following requirements in order to be eligible to participate in this program:

- (a) the utility serves fewer than 3,000 customers;
- (b) the utility primarily provides retail service to residential customers;
- (c) the utility does not serve extensively another utility;
- (d) the utility's current rates were set by a general rate order issued after January 1, 2011;
- (e) before each annual increase, the utility has met all mandatory program elements as described herein;
- (f) before each annual increase, the utility has met the requisite number of elective program elements as described herein; and
- (g) before each annual increase, the utility has made the filings as required by this program and received Commission approval.

1. Mandatory Program Requirements

In order to participate and continue to participate in the program, each utility shall meet the mandatory program elements as set forth below (also listed in Appendix A) at the time the utility applies for the annual increase.

Every utility must satisfy the following Mandatory Program Requirements:

- (a). Remain current with IURC requirements,
- (b). Provide Indiana Department of Environmental Management (“IDEM”) information, and
- (c). The utility must be a member of Indiana Underground Plant Protection Service (“IUPPS”)

2. Elective Program Requirements

In order to participate and continue to participate in the program, each utility must select and satisfy the requisite number of elective program requirements as set forth below, (also listed in Appendix A). For the first three annual rate increases, an electing utility must select and satisfy four electives each year. For the fourth year, an electing utility must select and satisfy five electives. For the fifth year, an electing utility must select and satisfy six electives. For each applicable year, all electives shall be completed prior to implementation of the annual rate increase.

Each elective can be used each year for all five increases provided the conditions for the elective are met and supporting documents provided to the IURC at the time of application. This applies to all electives except the one to “Join InWARN” which can only be used one time.

~~Every utility must select and complete four electives for each year of the first three annual rate increases, five electives must be met to qualify for the fourth annual rate increase, and six electives must be met for the fifth annual rate increase.~~

- (a). Provide an Assct Management Plan that has been prepared or updated within the last three years.
- (b). Develop or provide existing Standard Operating Procedures.
- (c). Complete the Water System Self Evaluation questionnaire provided by the Maryland Center for Environmental Training.
- (d). Complete Security Vulnerability Assessment and Emergency Response Plan.
- (e). Complete and document routine maintenance across all program areas as applicable to the utility.
- (f). Develop or provide existing map of utility system assets.

- (g). Provide a system Master Plan that has been prepared or updated within the last five years.
- (h). Join Indiana's Water/Wastewater Agency Response Network ("InWARN") as a utility member.
- (i). Maintain lost water below 12% for the most recent 12 month period.
- (j). Conduct a leak/loss survey in the prior year for systems with water loss greater than 15%.
- (k). Reduce lost water by 20% compared to water loss from the prior year.
- (l). Provide to the utility's consumers, at least annually, educational material concerning the wise use of water via a billing insert and provide the same or similar information on the utility's web-site if it has one.
- (m). Develop or provide existing information that supports the existence of written financial policies and procedures and the use of financial budgets.
- (n). Develop or provide an existing Business Plan/Strategic Plan.
- (o). Participate in performance measurement program by providing additional information requested in IURC Annual Report so that all performance measures can be calculated.
- (p). For utilities that elect to participate in the performance measurement program within the first two years, improve 85% of the performance measures by 10% over a three year period without decreasing performance for the remaining 15% of the performance measures.
- (q). At least one utility staff member participates in IURC Water/Wastewater Division sponsored training.
- (r). A member of the Clerk-Treasurer's office of municipal utility system or primary bookkeeper for private utilities holds a minimum of a two year accounting degree.
- (s). Clerk-Treasurer attends or has attended the Indiana State Board of Accounts Clerk-Treasurer training within the last two years.

(t). Two currently serving board members or city/town council members attend Alliance of Indiana Rural Water's Management Conference during the most recent twelve month period.

3. Annual Rate Increase Calculation

A participating utility's annual increase will be limited to a factor applied to the Eligible Expenses identified by the Commission in the participating utility's rate order. This factor shall be determined annually and designated as the "Annual Cost Index". In any rate order issued to a water or wastewater utility with fewer than 3,000 customers, the Commission shall list the eligible expenses that may be multiplied by the Annual Cost Index.

4. Annual Cost Index

For each calendar year, Commission staff shall establish the Annual Cost Index based on a weighted composite of the latest annual indices composed of Labor Index ECI (47.51%), Industrial Electric Power PPI (10.53%), Industrial Chemicals PPI (2.7%), and Other costs-CPI (39.26%) by January 31st of each year.

The Annual Cost Index will apply to all annual increase filings for the twelve month period the index is in effect. Utilities that elect to skip a year, or more, or opt to not apply the full Annual Cost Index factor increase in any given year, are not permitted to select a potentially larger Annual Cost Index from a previously ~~skipped~~ year, but instead, will be required to apply the Annual Cost Index in effect for the year the annual increase application is filed.

5. Limitations on Increases

The increases authorized under this program shall not exceed 7.5% per year. Cumulative increases shall not exceed 25% on eligible expenses.

Investor-owned utilities will not be eligible to receive an annual increase in any year where the utility's earnings result in a return that exceeds the return authorized in the utility's most recent rate order. The return will be determined using Schedule F-4 of the IURC Annual Report. Utilities will be provided with an opportunity to provide a corrected Schedule F-4 if the utility can show it is not earning in excess of its authorized return.

For a utility that participates in this program and also implements a Distribution System Improvement Charge ("DSIC"), the utility customers could receive a rate increase more frequently than every twelve months. Utilities are encouraged to make their best efforts to combine a DSIC increase with an annual program increase where the two will be close together to limit customer confusion. Any DSIC rate approved by the Commission may not exceed the statutory cap on DSIC revenues based on the utility's base revenues as determined in its most recent general rate case, excluding annual ARP increases.

6. Eligible Expenses

Eligible expenses shall be limited to Extensions and Replacements (E&R - municipal and not-for-profit only) and operating expenses including, but not limited to, the following:

Salary and Wages, Chemical Expense, Pension and Benefits, Bad Debt Expense, Purchased Power Expense, Contractual Services, Maintenance, Transportation, Insurance, Materials and Supplies, Miscellaneous Expenses, Bad Debts, Rent Expense, and Postage.

7. Ineligible Expenses and Revenue Requirements

The following expenses and revenue requirements are not eligible for increases under this program:

Debt Service, Depreciation, Return on Rate Base, Any Amortized Expense, Purchased Water and Purchased Wastewater Treatment expense. Thus, when considering investor-owned utilities, the net operating income (rate base times weighted cost of capital) and the associated income taxes will be the same amounts calculated and approved in the last rate case.

The annual revenue increase will not be augmented with a separate calculation for taxes and expenses related to revenue such as the Utility Receipts Tax and the IURC fee. However, an increase to these amounts is provided because the amounts approved in the rate case will be increased by the Annual Cost Index. Any differences that would be generated from a more precise calculation are not material and do not warrant the additional complexity that would be required.

Because it is difficult to contemplate all possible adjustments to eligible expenses, additional adjustments may be made. However, these adjustments will be limited and will be consistent with the items outlined in this document.

8. Expenses and Revenue Requirements to be Eliminated from Rates

(a) As part of any general rate order for a utility with fewer than 3,000 customers, the Commission shall identify any revenue requirement scheduled or otherwise anticipated to discontinue within six years of the rate order, along with the year the revenue requirement will be discontinued. Such identified revenue requirement shall include but not be limited to debt service for loans paid in full, amortizations of debt service reserve, working capital, rate case expense or other amortized revenue requirement that has been completely amortized thus fully recovered in rates. If a utility has a fully funded debt service reserve, then the Commission may consider this in determining when to remove debt service from revenue requirements.

Therefore, an ordering paragraph may be stated as follows:

If XYZ Utility, Inc. elects to participate in the Program, the eligible operating expenses to which the Annual Cost Index will be applied are \$132,453. This amount excludes \$46,271 approved for purchased water. All other components of the revenue requirement will remain unchanged except that in years four and five, operating expenses shall be reduced by \$15,000 related to rate case expense amortization. Also, in year five, debt service will be excluded to reflect full payment of the utility's outstanding debt obligations.

(b) In the case of a utility rate order that does not identify any such expenses, the utility may request that the Commission identify any such expenses such as debt service, debt service reserve, working capital, or rate case expense and determine which such revenue requirements should be considered to expire within six years of the rate order. A utility shall identify in its application any such authorized revenue requirement when it applies for participation in the program.

(c) In exchange for continued participation in this Program, the utility shall eliminate from its rates any such revenue requirement identified by the Commission. The removal of such revenue requirement from rates shall occur no later than the next annual rate adjustment following the anticipated or actual expiration of the revenue requirement, whichever first shall occur.

9. Application Process

A participating utility shall request each annual rate increase through the 30-day filing process. Under existing 30-day filing procedures, the OUCC will receive a copy on the filing date.

Each year thereafter, the participating utility shall file for the increase through the 30-day filing process. In the event a utility fails to request an increase in a given year, the utility is not prohibited from filing in subsequent years; however, the utility is not permitted to add increases from years in which it failed to request an increase or elected to not apply the full allowed increase.

Each utility shall complete and submit the one page form provided in Appendix B along with documentation supporting the utility's completion of the Mandatory Program Requirements and the Elective Program Elements selected.

A utility will not be permitted to implement its first annual increase until after 12 months have passed from the date of the utility's most recent rate order. Similarly, subsequent annual increases may not be implemented until 12 months have passed from the date the utility's most recent annual increase was implemented. These provisions do not apply to rate increases that are phased-in over time. However, utilities are encouraged to make their best efforts to combine a

phased-in rate increase with an annual increase where the two will be close together to limit customer confusion.

Utilities that received a rate order after January 1, 2011, but before the order date of the Commission order approving this program, will have the opportunity to apply for five annual rate increases during the six year period ending after the date an order is issued approving this program.

10. Simultaneous Applications Prohibited

A participating utility shall not submit a request for general rate increase while an application for rate adjustment under this Program is pending. ~~Once a participating utility files a Petition for general rate increase, any pending application for annual rate increase shall be deemed withdrawn.~~ Once a participating utility has filed a general rate increase, any subsequent application for annual rate increase from a prior order shall not be considered.

Appendix A: Program Elements

1. Mandatory Program Requirements:

Note: If a utility believes the content of its submissions is confidential, it must contact the Indiana Utility Regulatory Commission's ("IURC" or "Commission") Water/Wastewater Division Director before submitting that information.

(a). Current with IURC requirements

- Complete and current IURC Annual Report must be on file with the Commission. A complete IURC Annual Report is one that complies with the directions contained in the annual report forms and accurately reports financial statement information. Completion of data for the performance measurement program is not required unless the utility chooses performance measures as one of its electives. However, all utilities are encouraged to provide all of the performance measurement data requested even if they do not plan to participate in the Program.
- All affiliated contracts must be on file with the Commission.
- All compliance requirements outlined in Commission orders must be current.
- An IURC approved tariff must be on file with the Commission.
- A valid Certificate of Territorial Authority held where required for wastewater utilities.
- Investor-owned and not-for-profit utilities should be current with Public Utility Fee payments.

(b). Provide IDEM Information to the IURC

Provide its Indiana Department of Environmental Management (IDEM) National Pollutant Discharge Elimination System ("NPDES") (wastewater) and/or Public Water System Identification Number PWSID (water) and information concerning its IDEM certified operators and compliance with permit requirements as indicated ~~following~~:

- Each utility shall identify its operator(s) by name, operator number and class.
- A summary of continuing education activity for the previous calendar year shall be provided showing fulfillment of the required contact hours for their specific operator class.
- A statement concerning compliance with permit requirements for the previous calendar year.

327 IAC 8-12 governs the certification of water system operators, establishes appropriate Classes of certification, and establishes the required continuing education requirements for each class.

327 IAC 5-22 governs the certification of wastewater treatment plant (WWTP) operators, establishes appropriate Classes of certification and establishes the required continuing education requirements for each class.

(c). Indiana Underground Plant Protection Service (IUPPS) membership

The primary purpose of IUPPS (also known as Indiana811 or Call Before You Dig) is to operate and maintain a statewide toll-free one-call notification system to prevent the damage of underground facilities and to facilitate public safety. See www.indiana811.org. For this element to be met, the utility must be shown on the IUPPS web-site as being a member or otherwise demonstrate membership.

2. Elective Program Elements:

(a). Provide an Asset Management Plan that has been prepared or updated within the last three years.

The United States EPA defines Asset Management as a “desired level of service for what you want your assets to provide at the lowest life cycle cost. Lowest life cycle cost refers to the best appropriate cost for rehabilitating, repairing, or replacing an asset.”

An Asset Management Plan (“Plan”): “Monitors and manages the asset wear-out processes and defines the most cost-effective rate of reinvestment.” A utility’s Plan should include an inventory or data base of current assets and the condition and maintenance performed and to be performed on those assets.

To meet this elective, the utility must submit one of the following that has been prepared or updated within the last three years:

- MY CUPSS Plan (EPA’s Check Up Program for Small Systems) [www.http://water.epa.gov/infrastructure/drinkingwater/pws/cupss](http://www.water.epa.gov/infrastructure/drinkingwater/pws/cupss) populated with information specific to the utility; or
- An asset management plan developed by the utility that contains at least all of the elements of the MY CUPSS Plan.

The EPA’s CUPSS program is available at no cost.

(b). Develop or provide existing Standard Operating Procedures (SOPs).

Utility shall develop and maintain standard operating procedures for all significant pieces of equipment, processes and office duties. Elements of the procedures may include:

Field Code Changed

- Start-up Procedures
- Shut-down Procedures
- Daily Routine Operations
- Safety Practices and Procedures
- Maintenance Procedures
- Troubleshooting Procedures
- Testing and Monitoring Protocol
- Operational Forms and Reports
- Figures and Diagrams
- Day-to-day office tasks

The Rural Community Assistance Partnership (RCAP) has prepared a document titled, “The Big Guide for Small Systems: A Resource for Board Members.” This guide contains an example set of SOPs in its Appendix A. This example is also available in Microsoft Word format and may be a useful starting point. However, as noted in the Appendix, the document is a “tool.” “It is not ready-to-use and should not be distributed as-is.” This guide is free and can be accessed at the following web address: <http://www.rcap.org/commpubs>.

(c). Complete the Water System Self Evaluation questionnaire provided by the Maryland Center for Environmental Training.

Submit a completed Water System Self Evaluation form that can be found at the following web address: <http://www.mcct.org/Resources/publicationsToolkit2.html>

Field Code Changed

(d). Complete a Security Vulnerability Assessment and Emergency Response Plan.

RCAP has developed a toolbox titled “Security and Emergency Response Planning Toolbox for Small Water and Wastewater Systems.” The toolbox includes a “simple and practical vulnerability guide” as well as “emergency-response planning instructions” and “an emergency-response planning template” for small water and wastewater systems. The toolbox is free and is available at the following web address: <http://www.rcap.org/toolbox>.

For this elective to be met, the utility must certify the following:

- a Vulnerability Assessment has been completed and/or updated within the last twelve months consistent with the elements outlined in the RCAP guide.
- an Emergency Response Plan has been completed and/or updated within the last twelve months consistent with the content provided in the template provided by RCAP.

Since these documents may contain sensitive information, only the certification page should be provided to the Commission. However, Commission staff may, on occasion, request a utility to submit the documents for review. These documents will be promptly destroyed after the review is completed.

(e). Complete and document routine maintenance across all program areas as applicable to the utility. Some examples include, but are not limited to:

- Exercise Valves
- Distribution System Flushing
- Televising and Clean Sewer Lines
- Well Maintenance
- Fire Hydrant Testing
- Lift Station Maintenance
- Pump and Motor Maintenance
- Buildings and Ground Maintenance
- Vehicle Maintenance

For this elective to be met, the utility must submit a receipt from the vendor or verification of employee man-hours from utility director or board member which includes a description of the maintenance performed. Written maintenance records should be available for inspection if requested by Commission staff.

(f). Develop or provide existing map of utility system assets.

(i). Water Utilities

The utility shall have system maps showing water utility assets indentifying or referencing main lines (including pipe material and diameter), valves, hydrants, pumping facilities, tanks and other major facilities with at least enough accuracy to determine if facilities are on the correct side of the street or in the street. For this criteria to be met, the utility must submit a verified statement indicating it has maps and submit one sample map for a portion of its system (for example, a map of a street, subdivision or neighborhood showing the various utility assets).

(ii). Wastewater Utilities

The Utility shall have system maps showing wastewater utility assets indentifying or referencing collection lines (including pipe material diameter), force mains (including pipe material diameter), manholes, air release valves, cleanouts, pumping facilities and other major facilities with at least enough accuracy to determine if facilities are on the correct side of the street or in the street. For this criteria to be met, the utility must submit a verified statement indicating it has maps and submit one sample map for a portion of its system (for example, a map of a street, subdivision or neighborhood showing the various utility assets).

(g). Provide a system master plan that has been prepared or updated within the last five years.

A system master plan is an essential tool for every utility to take a forward look at their possible growth patterns and demands to facilitate planning of system expansion and improvements for the next 20 years. A system master plan is one that takes into account at least all of the following:

- The utility's existing and potential service territory;
- Description and inventory of existing system;
- Present and planned land use;
- The current and planned environmental and quality regulations and the ability of the utility system to comply with the regulations;
- Projection of system annual demand and usage for the next 20 years;
- Improvements necessary to meet the projection of system annual demand and usage for the next 20 years with these improvements categorized into priorities or phases;
- Documentation and description of costs associated with planned improvements; and
- A map or system diagram showing general location of proposed improvements.

Master plans are inherently technical documents almost always requiring the use of a Professional Engineer. For this element to be met, a master plan certified by a Professional Engineer must be submitted.

(h). Join InWARN (Indiana's Water/WasteWater Agency Response Network) as a utility member.

InWARN's mission is "To support and promote statewide emergency preparedness, disaster response, and mutual aid between water and wastewater utilities responding to major emergencies" See [www.http://in.uswarn.org](http://in.uswarn.org). For this element to be met, the utility must be shown on the InWARN web-site as being a member with a completed Mutual Aid Agreement ("MMA") on file.

This Elective can only be used one time during the six year time period.

(i). Maintain lost water below 12% for the most recent 12 month period.

Water Loss shall be defined and reported in a manner consistent with page W-6 (Pumping and Purchased Water

Statistics) of the IURC Annual Report.

(j). Conduct a leak/loss survey in the prior year for systems with water loss greater than 15%.

The Utility must maintain and report evidence documenting that that a leak/loss survey has been conducted on the utility's entire system using best available technologies, the survey is able to locate additional leaks within the survey area, and leaks found have been repaired or have been incorporated into capital improvements to be completed within the next 12 months. Components of a typical leak/loss survey may include:

- Use of sonic leak detection technology and/or data loggers.
- Prompt repair of identified and reported leaks.
- Measurement and analysis of system or area meter data.
- System pressure analysis resulting in pressure management program(s).

(k). Reduce lost water by an additional 20% compared to water loss from the prior year.

Water Loss shall be defined and reported in a manner consistent with page W-6 (Pumping and Purchased Water Statistics) of the IURC Annual Report for two consecutive years.

(l). Provide the utility's consumers educational material concerning the wise use of water via a billing insert and provide the same or similar information on the utility's web-site if it has one. Information provided via billing insert should be provided annually, at a minimum.

The educational material should contain content concerning the following major areas: efficient lawn watering, the amount of water wasted via leaking faucets and toilets, and the amount of water saved by using shower flow restrictors and high efficiency toilets. Examples of such educational material can be found on the web-site of the Office of Utility Consumer Counselor at www.in.gov/oucc or through the American Water Works Association web-site at www.awwa.org

For this elective to be met, the utility must submit a copy of the educational billing insert and provide a link to its web-site, if it has one, providing the educational material.

(m). Develop or provide existing information regarding written financial policies and procedures and the use of financial budgets.

In order to obtain credit for this elective, a utility needs to submit the following:

- Written financial policies and procedures.
- Copies of monthly financial statements for the most recent twelve month period that show comparisons of actual amounts to budgeted amounts. Written explanations should be provided for significant differences between budgeted and actual amounts.

- A five-year capital budget or Capital Improvement Plan showing individual assets the utility intends to purchase over each of the next five years.

The RCAP has prepared a document titled, "The Basics of Financial Management for Small-community Utilities." This guide contains an example set of financial management policies as part of Chapter 1. This example is also available in Microsoft Word format and may be a useful starting point. However, as noted in Chapter 1, the "sample policies are not ready-to-use and should not be adopted or distributed as-is." Chapter 2 provides information about capital improvement plans while Chapters 3 and 4 provide operating budget information. This document is free and can be accessed at the following web address:
<http://www.rcap.org/finmgmtguide>.

(n). Develop or provide an existing Business Plan/Strategic Plan.

A Business Plan or Strategic Plan should include vision, mission and organizational values statements. Contemplation of internal and external factors that could impact the utility should be evaluated. An assessment of the utility's strengths and weaknesses or opportunities for improvement for the next 3 to 5 years should also be identified. An acceptable Business Plan should provide analysis and selection of strategies in each of the following areas of water and/or wastewater system management:

- Customer service
- Finance
- Human resources management
- Business process improvement
- Short- and long-term action plans that include allocation of resources directed at achieving the goals and strategies the utility has adopted; and
- A process for strategic plan development and annual review/updates that facilitate input from customers, employees and other stakeholders;
- Regulatory Compliance

(o). Participate in performance measurement program by providing additional information requested in IURC Annual Report so that performance measures can be calculated.

The Commission's Water/Wastewater Division developed a Performance Measurement program that has been incorporated into the IURC Annual Report due every April 30th. In order to calculate all of the performance measures, additional information is required beyond that which is necessary to complete the Annual Report. Utilities that provide the additional information will receive credit for this elective.

Utilities that participate in the performance measurement program will receive their results along with the results of other utilities that provide the necessary information. To understand

the additional information required to participate in the performance measurement program, please review the IURC Annual Report.

(p). For utilities that elect to participate in the performance measurement program within the first two years, improve 85% of the performance measures by 10% over a three year period without decreasing performance for the remaining 15% of the performance measures.

Given the requirements of this elective, a utility could only receive credit for this elective in the fourth year if the utility participated in the performance measurement program in year one or in the fifth year if the utility initiated participation in year two.

(q). At least one utility staff member participates in IURC Water/Wastewater Division sponsored training.

The IURC's Water/Wastewater Division sponsors a one-day training program that provides training about IURC specific matters along with other utility issues. If at least one utility employee attends a training program, the utility will receive credit for one elective. Additional credits will not be provided for multiple attendees.

(r). A member of the Clerk-treasurer's office of municipal utility system or primary bookkeeper for private utilities holds a minimum of a two year accounting degree.

Provide a copy of the degree or other school documentation that supports the stated requirements.

(s). Clerk-treasurer attends or has attended the Indiana State Board of Accounts clerk-treasurer training within the last two years.

Provide documentation that supports attendance or a verified statement of attendance.

Information about the training can be found on the Indiana State Board of Accounts website at <http://www.in.gov/sboa/index.htm>.

(t). Two currently serving board members or city/town council members attend Alliance of Indiana Rural Water's Management Conference during the most recent twelve month period.

Provide documentation that supports attendance for two board members or city/town council members.

Information about the conference can be found on the Alliance of Indiana Rural Water's website at <http://www.inh2o.org/>.

Appendix II: Forms

Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Municipal and Not-for-Profit Utility Form

Utility Name:

Rate Case Cause No./Date Approved:

Description	Rev. Reqmts. from last Rate Order	Adjustments	Revenue Requirements for Annual Rate Increase Program				
			Year 1	Year 2	Year 3	Year 4	Year 5
1 Operating Expenses			\$ -	\$ -	\$ -	\$ -	\$ -
2 Payment in Lieu of Taxes			-	-	-	-	-
3 Extensions & Replacements			-	-	-	-	-
4 Taxes Other Than Income			-	-	-	-	-
5 Prior Year "Cost" Increases (Cumulative)			-	-	-	-	-
6 Revenue Requirement Subject to Annual Increase	-		-	-	-	-	-
7 Times: Annual Cost Index (IURC Small Utility Cost Index)	N/A						
8 Annual Revenue Increase			-	-	-	-	-
9 Allowable but Unadjustable Operating Expense			-	-	-	-	-
10 Working Capital			-	-	-	-	-
11 Debt Service			-	-	-	-	-
12 Total Revenue Requirements			-	-	-	-	-
13 Less: Interest Income			-	-	-	-	-
14 Other Revenues			-	-	-	-	-
15 Net Revenue Requirements			-	-	-	-	-
16 Less: Revenues at Current Rates			-	-	-	-	-
17 Required Revenue Increase	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
18 Revenue Not Subject to Increase at Present Rates			\$ -	\$ -	\$ -	\$ -	\$ -
19 Revenue Subject to Increase (Line 16-Line 18)	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
20 Percentage Increase (Line 17/Line 19)	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Alternative Regulatory Ratemaking Procedure for Small Water and Wastewater Utilities

Investor-Owned Utility Form

Utility Name:

Rate Case Cause No./Date Approved:

Description	Rev. Reqmts. from last Rate Order	Adjustments	Revenue Requirements for Annual Rate Increase Program				
			Year 1	Year 2	Year 3	Year 4	Year 5
1 Operating Expenses			\$ -	\$ -	\$ -	\$ -	\$ -
2 Taxes Other Than Income			-	-	-	-	-
3 Prior Year "Cost" Increases (Cumulative)	-		-	-	-	-	-
4 Revenue Requirements Subject to Annual Increase	-		-	-	-	-	-
5 Times: Annual Cost Index (IURC Small Utility Cost Index)	N/A						
6 Total: Adjustable Revenue Requirements	-		-	-	-	-	-
7 Allowable but Unadjustable Operating Expenses			-	-	-	-	-
8 Depreciation Expense			-	-	-	-	-
9 Income Taxes			-	-	-	-	-
10 Net Operating Income			-	-	-	-	-
11 Total Revenue Requirements	-		-	-	-	-	-
12 Less Revenues at Current Rates			-	-	-	-	-
13 Revenue Increase Required	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
14 Revenue Not Subject to Increase at Present Rates			\$ -	\$ -	\$ -	\$ -	\$ -
15 Revenue Subject to Increase (Line 12-Line 14)	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
16 Percentage Increase (Line 13/Line 15)	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!