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Handwritten signatures and initials: RB, AB, JFW, Koeb

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF ) CAUSE NO. 44271 U
EASTERN RICHLAND SEWER )
CORPORATION FOR A NEW ) APPROVED:
SCHEDULE OF RATES AND CHARGES. ) JUN 26 2013

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Marya E. Jones, Administrative Law Judge

On November 14, 2012, Eastern Richland Sewer Corporation ("Petitioner" or "Eastern Richland") filed with the Indiana Utility Regulatory Commission ("Commission") its Request for Changes in Rates and Charges ("Application") pursuant to Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On December 11, 2012, the Commission's Water and Sewer Division issued a Memorandum stating that Petitioner's Application was incomplete. On February 21, 2013, Petitioner filed additional information in support of the Application, including proof of publication, a copy of its written notice, including the notice to customers as required by 170 IAC 14-1-2(b), authorization by its governing body as required by 170 IAC 14-1-2(b)(4), and its Verified Statement of Federal Indebtedness as required by 170 IAC 14-1-2(c)(1). On February 25, 2013, the Commission's Water and Sewer Division issued a Memorandum stating that Petitioner's Application was deemed complete.

On May 26, 2012, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor ("OUCC") filed its report, recommending the Commission approve Eastern Richland's proposal to apply its currently approved rates to all its customers.

Pursuant to Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least ten customers, a public or municipal corporation, or by the OUCC. No requests for a hearing have been received by the Commission nor has the Commission determined the need for a hearing in this Cause. Accordingly, no hearing has been held.

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

1. Commission Jurisdiction and Notice. The evidence presented establishes that Petitioner published legal notice of the filing of this small utility rate case in accordance with applicable law in The Ellettsville Journal on June 16, 2013, and that Petitioner gave proper notice to its customers of the nature and extent of the proposed rate increase. The Commission thus finds that due, legal, and timely notice of this matter was given and published as required by law. Further, the Commission finds the Application satisfies all of the requirements of Ind. Code

§ 8-1-2-61.5 and 170 IAC 14-1. Therefore, the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding, and may issue an Order in this Cause based upon the information filed as provided by 170 IAC 14-1-6.

2. **Petitioner's Characteristics.** Petitioner is a "public utility" as that term is defined in Ind. Code § 8-1-2-1(a). Eastern Richland, an Indiana not-for-profit utility as that term is defined in Ind. Code § 8-1-2-125(a), provides wastewater utility services to approximately 2,074 customers in Monroe County, Indiana. Petitioner collects wastewater from its customers and conveys it to the Town of Ellettsville, Indiana ("Ellettsville") for treatment.

3. **Test Period.** The test period selected for determining Petitioner's revenues and expenses reasonably incurred in providing wastewater utility service to its customers includes the twelve (12) months ending December 31, 2011. With adjustments for changes that are fixed, known and measurable, the Commission finds this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** In an Order dated June 22, 2011 in Cause No. 43921, the Commission approved a request by Eastern Richland and Northern Richland Sewer Corporation ("Northern Richland") for Northern Richland to merge into Eastern Richland, requiring both to maintain their respective rates until further order of the Commission. Eastern Richland seeks approval to apply its currently approved rates to all of its customers which will result in approximately 240 former Northern Richland customers paying lower rates for the wastewater utility service now being received from Eastern Richland.

5. **OUCR Report.** The OUCR's Report ("Report"), prepared by Analysts Charles Patrick and Harold Rees, started with an overview of Petitioner's history and its request for relief. The Report explained Eastern Richland was required to file a Petition for new rates and charges for the combined system within one year of the Order in Cause No. 43921. Petitioner requests authority to reduce the former Northern Richland ratepayer rates to those rates paid by Petitioner's ratepayers. The Report stated that approximately 240 of Petitioner's customers are former Northern Richland customers who currently pay rates established in Northern Richland's last rate case. The OUCR recommends acceptance of Eastern Richland's request to reduce the former Northern Richland ratepayer rates to those rates paid by Petitioner's ratepayers.

Citing Ind. Code § 8-1-2-125, the Report explained that rates for a not-for-profit wastewater utility are calculated by first determining the amount of the adjusted *pro forma* net operating expenses based on the utility's current rates. The OUCR clarified that *pro forma* amounts are based upon known recurring expenses, updated to include charges that are fixed, known and measurable. The Report further explained that in addition to operating expenses, applicable charges for required taxes, working capital, a provision for extensions and replacements, debt service, and debt reserve requirement are included to determine total revenue requirements. Total revenue requirements are then reduced by any recurring interest or other income earned by the utility to determine the not-for-profit utility's net revenue requirements.

The Report stated Petitioner's revenue requirements are determined on a "Cash Needs" basis, and this approach includes Operation and Maintenance Expenses, Debt Service and

Extensions and Replacements, among other things. The OUCC agreed with Petitioner's calculation of its net revenue requirements of \$1,146,602. The OUCC accepted Petitioner's reduction of revenues by \$15,852, explaining that this calculation reflects the reduction of rates paid by the former Northern Richland customers in excess of the rates paid by the Eastern Richland customers. The OUCC recommended a \$22 revenue decrease based on the effect of the revenue decrease to the IURC Fee. Petitioner did not reflect this decrease in its schedules and did not respond to the OUCC's recommendation. Petitioner proposed, and the OUCC accepted, Petitioner's decreased *pro forma* depreciation adjustment of \$2,005 and noted that Eastern Richland correctly used a 2.20% composite depreciation rate. The Report stated that working capital was neither requested nor was it required, and pointed out that Eastern Richland removed its trackers and included them in base rates on its tariff. The Report noted this will result in a change in the presentation of rates on the tariff but will not affect actual rates paid by Eastern Richland's customers.

We find all of the recommendations made by Petitioner and the OUCC to be reasonable. The table below summarizes the revenue requirements for Eastern Richland.

	Per Petitioner	Per OUCC	OUCC More(Less)
Operating Expense	\$ 1,190,755	\$ 1,190,755	\$ -
Taxes Other than Income	19,732	19,732	-
Depreciation	39,100	39,100	-
Working Capital	-	-	-
Debt Service	8,717	8,717	-
Debt Service Reserve	-	-	-
Total Revenue Requirements	1,258,304	1,258,304	-
Less: Interest income	(111,702)	(111,702)	-
Net Revenue Requirements	1,146,602	1,146,602	-
Less: Revenues at current rates subject to decrease	(1,131,031)	(1,131,031)	-
Other revenues at current rates	(17,122)	(17,122)	-
	(1,551)	(1,551)	-
Add: Additional IURC Fee	1.000	0.986	(0.014)
Recommended Decrease	(1,551)	(1,573)	(22)
Calculated Percentage Decrease	0.14%	0.14%	0.00%
Recommended Percentage Change	0.00%	0.00%	0.00%

The Report stated Petitioner has a wastewater collection system consisting of nearly 36 miles of mains. Approximately 60% of the mains are made from clay tile and the rest are made from plastic (PVC) pipe. The Report explained that as clay tiles age, shifting soil breaks the clay tiles. The broken tiles allow significant infiltration during rain events which leads to system overflows. The infiltration issue has plagued Eastern Richland to the extent that it has implemented a main relining program. The OUCC Report noted that Eastern Richland submitted reports to IDEM concerning its efforts to reduce infiltration in its wastewater system. The Report discussed the collection system, indicating that it has three lift stations with pumps that

vary from 5 to 25 horsepower and from 75 to 280 gallons per minute capacity. The OUCC explained that Eastern Richland has made substantial progress in its efforts to televise its system, including the area it gained from Northern Richland in the merger. The Report stated Eastern Richland has a major contract with Miller Pipeline, LLC for the cleaning, repair and lining of nearly seven miles of the sewer system. In addition, the Report stated Eastern Richland purchased a camera truck and televising equipment as well as a Vactor truck for the cleaning and repair of the system. The Report also noted that Eastern Richland repaired two manholes during the test year.

The Report explained Eastern Richland is connected to Ellettsville which performs the sanitary treatment of Petitioner's customers' wastewater at wholesale rates. The OUCC noted that when Eastern Richland and Northern Richland merged, both utilities were connected with Ellettsville, and subsequent to the merger no changes were made to these interconnections with Ellettsville. The Report stated the driving distance from Eastern Richland's collection system to the Ellettsville Treatment Plant is about 1.5 miles, and the sewage flows to the Ellettsville treatment plant via gravity mains. Finally, the OUCC stated the ongoing rate for this service is administered through a Sewage Treatment Purchase contract.

**6. Commission Discussion and Findings.** Eastern Richland requests approval to decrease its revenues by \$15,852. This proposed change would result in a \$5.51 monthly cost decrease for average former Northern Richland customers and will result in all Eastern Richland's customers being subject to the same rates and charges.

Ind. Code § 8-1-2-125(d) allows a not-for-profit utility to earn a just and reasonable charge that will produce sufficient revenue to pay all legal and other necessary expenses incident to the operation of the utility's system. Eastern Richland's current rates are based primarily on the charge it pays to Ellettsville for the treatment of its wastewater, which the Commission already determined to be reasonable in Cause No. 37900.

Based on the evidence, Eastern Richland's and the OUCC's revenue requirements are nearly identical. The only difference is the OUCC's recommended \$22 IURC Fee reduction which was not included in Petitioner's schedules. Although Eastern Richland proposes to decrease its revenue by \$15,852, the evidence demonstrates this reduction will still allow Eastern Richland to slightly exceed its revenue requirement by \$1,573. Eastern Richland and the OUCC also agreed to a 2.20% composite depreciation rate and a decreased *pro forma* depreciation adjustment of \$2,005. Working capital was not requested nor was it required; however, the evidence discloses Petitioner has more than \$3.6 million in cash. The evidence further indicates Eastern Richland has removed its trackers and included them in base rates on its tariff, which will result in a change in the presentation of rates on the tariff but will not affect actual rates paid by Eastern Richland's customers.

As required by Ind. Code § 8-1-2-125(d), the rates authorized by this Commission in Cause No. 37900 for Eastern Richland are deemed to be sufficient to pay for the expenses incident to the furnishing of reasonably adequate utility services and facilities to Petitioner's customers. Based on the evidence Petitioner also appears committed to maintenance and repair of its system required in prior Orders of the Commission. We note, however, that failure to

collect sufficient revenues can lead to poor maintenance and a failure to perform necessary upgrades to the system. Should Eastern Richland determine the rates and charges authorized by the Commission are insufficient for its needs, it is encouraged to timely petition the Commission for an increase to those rates. The OUCC recommends the Commission accept Petitioner's request to reduce former Northern Richland rates to those paid by Eastern Richland's customers. Based on the evidence, we find it reasonable for Eastern Richland to apply its currently approved rates to all of its customers, thereby reducing the rate paid by the former Northern Richland customers.

7. **Effect on rates.** A former Northern Richland customer with average approximate usage of 4,563 gallons per month will experience a change in the monthly bill from \$44.44 to \$38.93, a decrease in rates of \$5.51 per month.

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

1. Consistent with the above findings, Eastern Richland is hereby authorized to apply its current rates and charges to customers acquired as a result of the merger with Northern Richland by order of the Commission in Cause No. 43921.

2. Prior to placing into effect the rates and charges approved herein, Eastern Richland shall file a schedule of rates and charges for the purpose of accomplishing the findings set forth above, with the Water/Sewer Division of the Commission. Such rates and charges for wastewater service will become effective upon approval thereof by the Water/Wastewater Division of the Commission and shall cancel all prior rates and charges.

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

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

**APPROVED: JUN 26 2013**

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



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