

ORIGINAL

AS
CAK
all
APW

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
ANDERSON MUNICIPAL LIGHT & POWER FOR) CAUSE NO. 44308
(1) AUTHORITY TO INCUR INDEBTEDNESS,)
AND (2) APPROVAL OF A NEW SCHEDULE OF)
RATES AND CHARGES FOR ELECTRIC) APPROVED:
SERVICE) MAR 26 2014

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
David E. Veleta, Administrative Law Judge

On February 21, 2013, the City of Anderson, Indiana by its municipal electric utility, Anderson Municipal Light & Power Company (“Petitioner” or the “Utility”), filed with the Indiana Utility Regulatory Commission (“Commission”) its Petition for authority to issue revenue bonds, and for approval of a new schedule of rates and charges for electric service.

Petitioner filed its case-in-chief on March 15, 2013, consisting of the direct testimony and exhibits of Petitioner’s Superintendent Thomas E. Donoho, John R. Skomp, a certified public accountant with Crowe Horwath LLP, and Beverly J. Matthews, the Vice President of Rates and Billing of ISC, Inc., a non-profit affiliate of the Indiana Municipal Power Agency.

On July 22, 2013, Petitioner filed its revised case-in-chief consisting of the direct testimony and exhibits of Thomas E. Donoho, John R. Skomp, and Beverly J. Matthews to supplement the testimonies and exhibits with the financial results and revenue requirement for the twelve (12) months ending December 31, 2012.

On October 7, 2013, Petitioner prefiled its second revised case-in-chief, consisting of the direct testimony and exhibits of Thomas E. Donoho, John R. Skomp, and Beverly J. Matthews to correct a material error in the calculation of the revenue requirement.

The Indiana Office of Utility Consumer Counselor (“OUCC” or “Public”) prefiled its case-in-chief on December 20, 2013, consisting of the direct testimony and exhibits of Michael D. Eckert, a Senior Utility Analyst in the Electric Division of the OUCC. Petitioner elected not to file rebuttal testimony.

On February 19, 2014, the Presiding Officers issued a Docket Entry requesting Petitioner to respond prior to the Evidentiary Hearing, to which Petitioner responded on February 20, 2014 (“Docket Entry Response”).

Pursuant to notice, the public evidentiary hearing was convened at 9:30 a.m. on February 24, 2014 in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Proofs of publication of the notice of the evidentiary hearing were incorporated into the record and placed in the official files of the Commission. Petitioner and the Public appeared and participated in the evidentiary hearing. No members of the general public attended the evidentiary hearing.

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

1. **Notice and Jurisdiction.** Due, legal and timely notice of the hearing conducted by the Commission in this Cause was given as provided by law. Petitioner is a “municipally owned utility” as defined in Ind. Code § 8-1-2-1(h). Indiana Code § 8-1.5-3-8 requires Petitioner to obtain this Commission’s approval of its rates and charges, and Ind. Code § 8-1.5-2-19 requires approval from this Commission before Petitioner may issue debt. Thus, this Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner’s Characteristics.** Petitioner is authorized to and is engaged in the furnishing of electricity to approximately 35,950 residential, commercial, industrial and other customers located within its assigned service area. The City of Anderson, Indiana is a member of the Indiana Municipal Power Agency (“IMPA”) and Petitioner purchases all of its power and energy requirements from IMPA, pursuant to the terms of a Power Sales Contract. Petitioner’s current schedule of rates and charges was placed into effect following the Commission’s Order in Cause No. 43411 on August 20, 2008.

3. **Test Period.** Petitioner used the twelve (12) months ended December 31, 2012 for determining Petitioner’s annual operating revenues and revenue requirements under Ind. Code § 8-1.5-3-8. With adjustments for changes that are fixed, known and measurable, the Commission finds the test period selected is sufficiently representative of Petitioner’s normal operations to provide reliable data for ratemaking purposes.

4. **Relief Requested.** In its second revised case-in-chief, Petitioner requested (i) an increase of \$17,399, or .02%, in its annual operating revenues from rates and charges for service, (ii) approval of a new Industrial Power (“IP”) Tariff and a new Industrial Sub-Transmission (“ISTP”) Tariff, (iii) restructuring of its rates and charges to reduce cross-class subsidies by 50% (based upon the results of a cost-of-service study prepared and sponsored by Beverly J. Matthews), and (iv) approval for the issuance of electric utility revenue bonds in an aggregate principal amount of approximately \$1,535,000 for the purpose of obtaining funds to pay the cost of certain capital improvements to its electric system.

5. **Petitioner’s Proposed Bond Issue.** Ind. Code § 8-1.5-2-19 provides that a municipality may not issue bonds, notes or other obligations under Ind. Code ch. 8-1.5-2 without prior approval of the Commission. Petitioner’s witness John R. Skomp testified that bonds would be issued in an aggregate principal amount not to exceed \$1,535,000. The proceeds of the electric

utility revenue bonds will be used to fund various upgrades to the utility system, including purchases of an electric substation and all related equipment in order to reduce the voltage charges for delivered power from the Utility's energy supplier. The sub-station is currently owned by American Electric Power ("AEP"). AEP's 138 kV transmission line delivers to the sub-station, which steps the power down to 34.5 kV after which it is metered to Petitioner. IMPA charges Petitioner a delivery voltage charge that is currently \$0.873/kW for delivering at 34.5 kV. For all of 2011, that charge totaled \$327,425 for deliveries through that sub-station. By purchasing the sub-station from AEP, Petitioner would avoid that delivery voltage charge entirely. Petitioner has completed an analysis which shows that the present value of the avoided delivery voltage charges far exceeds the present value of the cost of acquisition and long term maintenance and upkeep of the sub-station. The OUCC did not oppose Petitioner's proposed new bond issuance.

Based upon the evidence presented, the Commission finds that Petitioner should be authorized to issue the bonds in an amount not to exceed \$1,535,000.

6. Petitioner's Current Operating Revenue. The Parties agree that Petitioner's adjusted operating revenues were \$76,537,894 for the twelve (12) months ended December 31, 2012.

On February 20, 2014, the Presiding Officers issued the following question through a Docket Entry:

Exhibit C of Mr. John R. Skomp's Second Revised Prefiled Direct Testimony includes statements of income for the twelve months ended December 31, 2012, 2011 and 2010. On April 30, 2013, Petitioner submitted its Municipal Electricity Utility Annual Report ("Annual Report") to the Commission. Please explain the difference between the Operating Revenues for 2012 listed on page 43 of the Annual Report and those listed in Petitioner's Exhibit C.

Petitioner's Docket Entry Response stated the following:

Exhibit C of Mr. Skomp's September 24, 2013 Rate and Financing Report ("Rate Report") for the Anderson Municipal Electric Utility ("Utility") and the Annual Report of the Utility filed on April 30, 2013 ("Annual Report") do agree on the total amount of revenue for calendar year 2012. The difference is in whether the revenue is shown in the Operating or Other Income sections of the Statement of Income. Two of the revenue items listed on page 43 of the Annual Report (rents from Electric Property and Interdepartmental Rents) are grouped together as Rental Income in the Other Income section of Exhibit C of the Rate Report...

We note that under the Uniform System of Accounts, Account 454 (rent from electric property) and Account 455 (interdepartmental rents) are included in the classification “Operating Revenue Accounts.” Thus, we find Petitioner’s rent from electric property and interdepartmental rents should be classified as operating revenue for ratemaking purposes, and not as “other income” as described in Petitioner’s Docket Entry Response. Consequently, the Commission finds that Petitioner’s pro-forma annual revenues should be \$76,716,715.¹

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

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

It is the intention of Ind. Code § 8-1.5-3-8 that rates and charges produce an income sufficient to maintain a municipally owned utility’s property in a sound physical and financial condition to render adequate and efficient service. Rates and charges that are too low to meet the foregoing requirements are unlawful.

a. **Operations and Maintenance Expenses.** The OUCC agreed with Petitioner’s proposed annual revenue requirement for operation and maintenance expenses, excluding taxes of \$68,315,518. Based upon the evidence, we find that Petitioner’s revenue requirement for operation and maintenance expenses is \$68,315,518.

b. **Taxes Other Than Income Taxes.** The OUCC agreed with Petitioner’s proposed annual revenue requirement for taxes other than income taxes of \$2,702,248. Based upon the evidence, we find that Petitioner’s revenue requirement for taxes other than income taxes is \$2,702,248.

c. **Depreciation.** The OUCC agreed with Petitioner’s proposed depreciation expense of \$2,909,765. Based upon the evidence, we find that Petitioner’s depreciation expense is \$2,909,765.

¹ This calculation includes the elimination of the Automated Streetlight Control and Monitoring Mesh Network System (“ROAM”) debt service which we address in Paragraph 7e of this Order.

d. Working Capital. The OUCC agreed with Petitioner's proposed annual revenue requirement for working capital of \$576,802. Mr. Skomp testified that \$700,000 of Petitioner's working capital requirement is for repayment on an inter-departmental loan from the Anderson Municipal Sewage Works. Since the working capital requirement is amortized over two years, this loan will be repaid and \$350,000 of the working capital requirement will be eliminated. Thus, at the end of the two year period, Petitioner shall adjust its base rates to reflect the repayment of this loan and the elimination of this part of the revenue requirement. Therefore, we find that Petitioner's annual revenue requirement for working capital is \$576,802, subject to the above modification.

e. Debt Service. Petitioner proposed an annual revenue requirement for debt service of \$2,050,716. The OUCC disagreed. Instead, the OUCC proposed an annual revenue requirement for debt service of \$2,009,815. However, the OUCC did not recommend a revenue decrease, but rather recommended that there be neither an increase nor a decrease.

Petitioner used the three year period 2013 through 2015 to calculate its debt service requirements, which included the ROAM streetlight project. However, Mr. Eckert testified that he used the first three years that Petitioner's rates will be in effect, 2014 through 2016. Furthermore, Mr. Eckert stated that "[b]y using this three year period, my recommended debt service and lease payment requirement will match what Petitioner is projected to pay during the next three years." Therefore, the OUCC did not agree with Petitioner's inclusion of ROAM Street lighting because it will be paid off prior to the time the rates will be implemented.

We agree with the OUCC that Petitioner should utilize a three year average of debt service and lease payments, and exclude the ROAM Street lighting payment. Thus, we decrease Petitioner's annual revenue requirement for debt service by \$40,901.

8. Petitioner's Proposed New IP and ISTP Tariffs. Petitioner has historically had a single tariff (Large Power Service – Rate Schedule LP) for its large industrial customers. Petitioner's witness Donoho explained that Petitioner believes in order to retain current large industrial customers and attract more, Petitioner needs to diversify its industrial power offerings. The OUCC does not oppose Petitioner's proposed new industrial tariffs. Based on the evidence, the Commission finds that Petitioner's proposed new IP and ISTP Tariffs are reasonable and necessary.

9. Cost-of-Service Study and New Rate Design. Petitioner submitted for the record a cost-of-service study prepared by Beverly J. Matthews, the Vice President of Rates and Billing of ISC, Inc., a non-profit affiliate of the Indiana Municipal Power Agency. Petitioner proposes to adjust its rates and charges in order to reduce cross-class subsidies by 50%. The OUCC agrees Petitioner's cost-of-service study is reasonable and should be used to adjust its rates and charges in order to reduce cross-class subsidies by 50%.

The Commission finds that the proposal to adjust its rates and charges in order to reduce

cross-class subsidies by 50% is reasonable and achieves a reasonable step towards more cost based rates without imposing unreasonably large rate swings on any customer class.

10. Annual Revenue Requirement. Based on the evidence, the Commission finds that Petitioner’s annual revenue requirement is:

Operation and Maintenance Expenses	\$68,315,518
Depreciation	2,909,765
Taxes Other Than Income Taxes	2,702,248
Debt Service	2,009,815
Working Capital	576,802
Revenue Requirement	<u>\$76,514,148</u>
Pro Forma Annual Operating Revenues	\$76,716,715
Excess	202,567
Revenue Conversion Factor	0.986
Total Revenue Decrease	205,443
Percent Decrease Required	-0.27%

11. State Board of Accounts 2012 Audit Report. On February 20, 2014, the Presiding Officers issued a Docket Entry which asked Petitioner why there were not any adjustments to address concerns in the State Board of Account 2012 audit report that Petitioner was using operating funds to pay for expenses “...that were primarily, if not entirely, related to the City.” Petitioner noted in its Docket Entry Response that “...[s]ince this was brought to the attention of the City...the City has been working to provide reasonable supporting documentation and justification to the State Board of Accounts with regard to these expenses...”

We appreciate that Petitioner is in the process of working through these issues with the State Board of Accounts. However, once these issues are resolved, Petitioner shall file under this Cause an explanation of how these issues have been resolved.

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

1. Petitioner is authorized to issue its electric utility revenue bonds in an amount not to exceed \$1,535,000, with a term of twenty (20) years, and bearing an interest rate not to exceed six (6) percent per annum.
2. Petitioner is authorized to issue and implement its proposed new IP and ISTP Tariffs.
3. Petitioner is authorized and as directed by the cost of service study filed in this case to compute and implement new rates and charges for electric service (including its new IP and ISTP tariffs), which will (a) recover its authorized revenue requirement of \$76,514,148, and (b) reduce cross-class subsidies compared to its existing rates by 50% across all rate classes.

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

5. Petitioner shall adjust its base rates to reflect the elimination of the amortization expense for working capital requirement for repayment on the inter-departmental loan of \$700,000 from the Anderson Municipal Sewage Works, at the end of the respective amortization periods approved herein by filing revised rate schedules with the Commission's Electricity Division.

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

Commission Charges:	\$ 2,785.75
OUCG Charges:	\$ 6,640.86
Legal Advertising Charges:	\$ 251.90
TOTAL	\$ 9,678.51

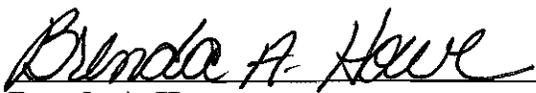
7. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay, with respect to its proposed new bond issuance, a fee in an amount equal to \$0.25 for every one hundred dollars of financing proceeds received by Petitioner. Said fee shall be paid into the Treasury of the State of Indiana, through the Secretary of this Commission, within thirty (30) days of Petitioner's receipt of any financing proceeds authorized herein.

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

ATTERHOLT, MAYS, STEPHAN, WEBER, AND ZIEGNER CONCUR:

APPROVED: MAR 26 2014

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



Brenda A. Howe
Secretary to the Commission