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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF INDIANA-AMERICAN)
WATER COMPANY, INC. ("INDIANA)
AMERICAN") AND THE YANKEETOWN)
WATER AUTHORITY, NEWBURGH,)
INDIANA ("YANKEETOWN") FOR)
APPROVAL AND AUTHORIZATION OF: (A))
THE ACQUISITION BY INDIANA-AMERICAN)
OF YANKEETOWN'S WATER UTILITY)
PROPERTIES (THE "YANKEETOWN WATER)
SYSTEM") IN WARRICK COUNTY, INDIANA)
IN ACCORDANCE WITH A PURCHASE)
AGREEMENT THEREFOR; (B) APPROVAL)
OF ACCOUNTING AND RATE BASE)
TREATMENT; (C) APPLICATION OF)
INDIANA AMERICAN'S AREA ONE RATES)
AND CHARGES TO WATER SERVICE)
RENDERED BY INDIANA AMERICAN IN THE)
AREA SERVED BY THE YANKEETOWN)
WATER SYSTEM ("THE YANKEETOWN)
AREA") ALONG WITH A MONTHLY)
SURCHARGE IN THE AMOUNT OF \$10 PER)
CUSTOMER FOR TEN YEARS; (D))
APPLICATION OF INDIANA AMERICAN'S)
DEPRECIATION ACCRUAL RATES TO SUCH)
ACQUIRED PROPERTIES; (E) THE)
SUBJECTION OF THE ACQUIRED)
PROPERTIES TO THE LIEN OF INDIANA)
AMERICAN'S MORTGAGE INDENTURE;)
AND (F) THE ASSUMPTION OF THE)
MORTGAGE ASSOCIATED WITH)
YANKEETOWN'S 2011 BOND ISSUE.)

CAUSE NO. 44400

APPROVED:

MAR 26 2014

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

David E. Veleta, Administrative Law Judge

On September 27, 2013, Joint Petitioners Indiana-American Water Company, Inc. ("Indiana American") and Yankeetown Water Authority, Newburgh, Indiana ("Yankeetown") filed their joint petition and prepared testimony and exhibits constituting their case-in-chief with the Indiana Utility Regulatory Commission ("Commission") in this matter.

On January 27, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its notice of intent not to file testimony in this proceeding.

On February 12, 2014, the Parties filed a Joint Stipulation and Settlement Agreement (the “Settlement Agreement”).

On February 19, 2014, the Presiding Officers issued a docket entry requesting additional information from the Parties. On February 21, 2014, Indiana American filed its response to the docket entry.

Pursuant to notice of hearing duly given and published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an evidentiary hearing in this Cause was held at 9:30 a.m. on February 27, 2014 in Room 222, PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Joint Petitioners and the OUCC appeared and participated in the evidentiary hearing. No members of the general public appeared.

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

1. Notice and Jurisdiction. Due, legal and timely notice of the public hearing conducted herein was given by the Commission as required by law. Indiana American is a “public utility” within the meaning of that term in Ind. Code § 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by law. Pursuant to Ind. Code § 8-1-2-83, the Commission has jurisdiction over a public utility’s sale or transfer of its utility system. Therefore, the Commission has jurisdiction over Joint Petitioners and the subject matter of this proceeding.

2. Joint Petitioners’ Characteristics. Indiana American is an Indiana corporation engaged in the provision of water utility service to the public in and around numerous communities throughout the State of Indiana for residential, commercial, industrial, public authority, sale for resale and public and private fire protection purposes. Indiana American also provides sewer utility service in Wabash and Delaware Counties.

Yankeetown is a not for profit, member-owned utility located in Warrick County, Indiana. Yankeetown owns and operates a water distribution system serving approximately 633 individually metered customers. Yankeetown purchases water from the City of Boonville to serve its customers. Yankeetown has withdrawn from the Commission’s jurisdiction for purposes of rates, charges and financing. The Yankeetown Water System is near Indiana American’s existing Newburgh Operations.

3. Relief Requested. Joint Petitioners request that the Commission (1) approve accounting and rate base treatments that reflect the full purchase price plus transaction costs in Indiana American’s net original cost rate base; (2) grant such approvals as may be necessary to consummate the acquisition of the Yankeetown Water System (as defined in the Joint Petition) by Indiana American on the terms described in the Joint Petition and the Asset Purchase

Agreement between Indiana American and Yankeetown; (3) authorize Indiana American to apply the rules and regulations and rates and charges generally applicable to Indiana American's Area One rate group, as the same may be changed from time to time, along with a \$10 monthly surcharge for a period not to exceed ten (10) years, for service to be provided by Indiana American in the areas currently served by the Yankeetown Water System; (4) authorize Indiana American to apply its existing depreciation accrual rates to the Yankeetown Water System; (5) approve the encumbering of the properties comprising the Yankeetown Water System with the lien of Indiana American's Mortgage Indenture; and (6) approve the assumption by Indiana American of Yankeetown's obligations with respect to the 2011 Yankeetown Bond Issue (as defined in the Joint Petition), including assumption of the mortgage placed on the Yankeetown Water System assets thereby.

4. Description of Yankeetown Water System. As stated in the direct testimony of Jeffrey C. Henson, Indiana American's Senior Business Development Manager, Yankeetown owns and operates a water system serving approximately 633 customers in an area immediately east of Indiana American's Newburgh Operations. The system's source of supply consists of an interconnection with the City of Boonville along with a long-term water purchase agreement between the City of Boonville and Yankeetown. The distribution system consists of over 125,000 feet of water main, a 200,000 gallon elevated storage tank and a connection with the City of Boonville. All customer accounts are metered.

5. Evidence Presented. Mark Warren, President of the Yankeetown Board of Directors, testified that operation of the Yankeetown Water System is controlled by the Board. He testified that the prior Board members borrowed funds to replace infrastructure and entered into a water purchase agreement with the City of Boonville that have resulted in Yankeetown having some of the highest water rates in the area. He explained this was primarily due to the high level of debt at the utility and the small number of customers. He noted that Yankeetown customers will benefit from lower rates as a result of the proposed transaction.

Mr. Warren testified that the Yankeetown Board started discussions to obtain bids for the sale of its water assets in late 2012 and early 2013. He stated discussions were held with the Town of Chandler and the City of Boonville. When customers of the Yankeetown Water System became aware of those discussions, they questioned why the Board was not having similar discussions with Indiana American. After customers voiced their displeasure with the process at Board meetings, a new board member was elected and Indiana American was invited to bid on the purchase of the water utility assets. Subsequently, the remaining Board members and legal counsel for Yankeetown resigned in April 2013. On May 14, 2013, four additional new Board members were elected and the new Board continued to solicit bids for the potential sale of the Yankeetown Water System assets. Only Indiana American submitted a proposal.

Mr. Warren testified that Indiana American presented its proposal at a May 28, 2013 Board meeting at which 105 Yankeetown customers were in attendance. A written offer containing Indiana American's proposed rate structure, including the proposed \$10 surcharge, and rate comparison chart were submitted to Yankeetown on June 11, 2013. On July 9, 2013, at a special meeting convened to discuss the proposed sale, Yankeetown's customers in attendance voted to approve the proposal by a vote of 136 to 10. The notice to customers regarding the July

9, 2013 meeting also contained the rate comparison chart. Mr. Warren testified that negotiations leading up to the execution of the Asset Purchase Agreement were conducted at arm's length.

The complete terms and conditions of the purchase and sale of the Yankeetown Water System are set forth in the Asset Purchase Agreement, filed as Petitioners' Exhibit JCH-4. Mr. Henson testified that Indiana American proposes to acquire all the water storage tanks, water mains, service lines (other than customer service connections), meters, hydrants, equipment, real estate, easements and permits and all other assets located within the Yankeetown Water System which are part of the production, treatment, transmission and distribution system utilized to provide water service to customers, excluding (a) liabilities, contingent or otherwise, (b) customer service connections which are and shall remain the property of the customer, (c) furniture, (d) transportation equipment, (e) tools, shop and garage equipment, (f) communication equipment, (g) miscellaneous equipment, (h) cash and accounts receivable, and (i) customer deposits.

Mr. Henson described the improvements Indiana American will make to the Yankeetown Water System after closing, including installation of new radio read water meters or upgrading existing water meters to radio read if applicable to assist in cost-effective meter reading and new SCADA equipment to assist with monitoring of the Yankeetown Water System from the Newburgh Operation. He stated operation and maintenance for the Yankeetown Water System will be provided by the staff at Indiana American's Newburgh Operation.

As described in Mr. Henson's direct testimony, the Asset Purchase Agreement between Indiana American and Yankeetown provides for the acquisition by Indiana American of the utility assets of Yankeetown for a purchase price consisting of the assumption of a bond issue estimated to be approximately \$1,795,000 at closing and an additional amount necessary to retire another bond issue in an amount estimated to be \$200,000 at closing. Mr. Henson testified that according to Yankeetown's financial statements, the Yankeetown Water System has a net asset value (or rate base) of approximately \$2,400,000. However, Indiana American determined that given the large amount of debt and the agreement with the City of Boonville, a purchase of the Yankeetown water utility assets could only include the retirement or assumption of Yankeetown's debt in order to minimize any subsidy by other Indiana American customers. The Asset Purchase Agreement provides as a condition to closing the approval by the Indiana Finance Authority for Indiana American to assume Yankeetown's 2011 bond issue upon reasonable terms, which includes a mortgage on the Yankeetown Water System assets.

Mr. Henson also provided testimony on the accounting and ratemaking treatment proposed by Indiana American in connection with its acquisition of the Yankeetown Water System. Joint Petitioners' Exhibit JCH-6 sets forth the proposed journal entry, which shows a recorded original cost of the Yankeetown Water System assets as the purchase price plus transaction costs. Assuming \$50,000 of transaction costs, Mr. Henson testified the original cost rate base for the Yankeetown Water System would be \$2,045,000 based on estimated debt balances at closing. Mr. Henson explained that this accounting treatment is appropriate where (1) the price resulted from an arm's length negotiation between the buyer and seller, and (2) the system being acquired is small or troubled. Mr. Henson stated that the Yankeetown Water System is troubled to the extent it has high water rates which could result in potential difficulties

to grow its customer base and any additional capital that may be needed could make it difficult for its customers to afford their water bills. He also described the Yankeetown Water System as small, having only approximately 633 customers.

The accounting entries proposed by Indiana American, consistent with Commission policy, would be to record the net original cost of the Yankeetown Water System as a debit to Utility Plant in Service. Mr. Henson further testified that the depreciation accrual rates to be applied to the Yankeetown Water System assets would be the rates approved by the Commission in Cause No. 43081 on November 21, 2006, as included in the calculation of rates with the approval of Indiana American's rate case in Cause No. 43187 on October 10, 2007.

Mr. Henson testified that the customers of the Yankeetown Water System and Indiana American's existing customers will benefit from the acquisition. Yankeetown customers will continue to benefit from full time management of their water system, but will also gain the benefits of a much larger supporting organization including, but not limited to, a full-time operations staff, 24/7 customer service and emergency response, enhanced security measures, along with full-time functional specialists in the areas of engineering and water quality. He stated Yankeetown customers will also benefit from lower rates after the closing of the transaction. He testified that continuation of current ownership could lead to a troubled future for the Yankeetown Water System. He stated under their current rate structure, Yankeetown's rates are high and may become unaffordable for its customers, especially as it continues to replace infrastructure in the future. Mr. Henson further explained that Yankeetown Water System customers will benefit from many programs that Indiana American uses to ensure customer satisfaction, such as routine valve operating programs, hydrant flushing and inspection, meter replacement, and plant security.

According to Mr. Henson's testimony, Indiana American's existing customers will benefit from the addition of the \$10 per month surcharge as well as expanded economies of scale and an extended service area that could result in additional future growth. He stated that without the acquisition, Indiana American's Newburgh Operation's growth potential would be limited due to being surrounded by the Ohio River, City of Evansville, Town of Chandler and City of Boonville, leaving the only growth opportunities to the east of Newburgh which includes the Yankeetown area. He explained that the added customers and potential to serve a larger service area in Newburgh will provide a larger base over which Indiana American can spread fixed costs.

Mr. Henson's testimony described Indiana American's intention to apply Indiana American's Area One tariff rates for water service and private and public fire service on file from time to time to the customers of the Yankeetown Water System, along with a \$10 monthly surcharge per customer for a period not to exceed ten (10) years. Support offered by Mr. Henson for application of the Area One rates includes the proximity of the Yankeetown Water System's current service area to the Newburgh Operation service area which is currently a part of the Area One rate group, and the fact that, upon consummation of the transaction, the Yankeetown Water System will become part of the Newburgh Operation. Mr. Henson stated that utilizing Indiana American's existing Area One rates is also consistent with the approach taken in past Commission orders to simplify Indiana American's overall rate structure with a goal of having

single tariff pricing for the entire state of Indiana. He explained that the decision was made to propose a monthly surcharge in order to minimize the subsidy by Indiana American's existing customers. He explained this subsidy is driven by two factors. First, the Yankeetown Water System is relatively new and as a result the transaction when consummated would involve an investment per customer (approximately \$3,200) that is significantly greater than the current Indiana American system average investment per customer (approximately \$2,400). Second, Mr. Henson testified, the fact that Yankeetown purchases all of its water supply from Boonville makes this transaction unique. All else being equal, because of these facts, without the surcharge, undue subsidies by Indiana American's existing customers would result. Mr. Henson explained that the ten-year duration of the surcharge is intended to allow for sufficient depreciation of the Yankeetown Water System assets to eliminate much of the subsidy that would otherwise exist. Mr. Henson testified that the monthly bill for a residential customer using 5,000 gallons would change from \$74.52 to \$46.86 for customers without fire protection, based on the current tariff in effect for both utilities at the time of filing and including the \$10 monthly surcharge to be charged by Indiana American.

Mr. Henson's direct testimony also described the encumbrance that would be placed on the Yankeetown Water System assets as a result of the acquisition under Indiana American's General Mortgage, which secures most of Indiana American's utility property for the benefit of Indiana American's bond holders. Mr. Henson testified that Indiana American has access to all of the necessary funds to support the acquisition. Initially, Mr. Henson explained, those funds will come from internally generated funds. Mr. Henson testified that Indiana American does not believe the acquisition would impair its ability to raise necessary capital on reasonable terms while maintaining a reasonable capital structure. According to his testimony, the projected investment to acquire the Yankeetown Water System is equal to less than 0.29% of Indiana American's total capital structure as of December 2012.

6. Settlement Agreement. The Settlement Agreement entered into by Indiana American, Yankeetown and the OUCC in this Cause is attached hereto and incorporated herein by reference. The Settlement Agreement presents a resolution of all matters pending before the Commission in this Cause which the parties agree is reasonable. More specifically, the Settlement Agreement provides that Indiana American should be authorized to consummate the acquisition of the Yankeetown Water System by Indiana American pursuant to an asset purchase agreement entered into between Yankeetown and Indiana American. In addition, Indiana American should be authorized to: (1) on and after the closing, charge customers currently served by the Yankeetown Water System the then-current rates and charges applicable to water utility service provided by Indiana American in its Area One rate group on file with and approved by the Commission, as the same are in effect from time to time, along with a \$10 monthly surcharge to be in effect for a period of ten (10) years after closing; (2) apply the same rules and regulations for water service and private and public fire service applicable in Indiana American's Area One rate group on file with and approved by the Commission, as the same are in effect from time to time; (3) book an amount for net original cost rate base equal to the purchase price of \$1,995,000 plus transaction costs not to exceed \$50,000, effectively allowing Indiana American to recover a return for ratemaking purposes equal to its weighted cost of capital as applied to the purchase price and to recover through depreciation expense the full purchase price; (4) record the \$10 monthly surcharge as operating revenues for accounting and

ratemaking purposes; and (5) following the closing, apply its depreciation accrual rates approved by the Commission in Cause No. 43081. The parties also agreed that Yankeetown will refund any customer deposits following consummation of the acquisition.

The Settlement Agreement states that the parties' agreement on the accounting treatment for the \$10 monthly surcharge is predicated on the understanding that to the extent the surcharge is designed to offset the higher operating costs associated with the customers of the Yankeetown Water System continuing to receive water from the City of Boonville, treating the funds received from the surcharge as revenue is appropriate. Mr. Henson offered settlement testimony to show that the water purchase agreement with the City of Boonville results in higher water production costs when compared to Indiana American's overall costs for the same amount of water. Under the water purchase agreement with the City of Boonville, Mr. Henson calculated the monthly cost per customer to be \$13.30 for 4,800 gallons. He indicated Indiana American's water production costs for 4,800 gallons is approximately \$2.05. Mr. Henson also testified in his settlement testimony that higher depreciation expense and property tax expense cause the differential to be even higher. He concluded that the water purchase agreement alone justified the \$10 monthly surcharge being treated as revenue as an offset to higher operating expenses.

The OUCC offered settlement testimony from Margaret Stull which also supported the Settlement Agreement. Ms. Stull noted that, although the parties agreed to treatment of the monthly surcharge as revenue in this case, to the extent the surcharge is imposed to pay for infrastructure or otherwise offset the higher investment per customer flowing from the purchase price, she believes and the OUCC would maintain that the proper accounting of the funds derived from the surcharge would be to treat them as contributions in aid of construction ("CIAC"). She also noted that if the surcharge is considered an offset to the higher water procurement costs associated with the Booneville water purchase agreement, in that case it would be properly treated as operating revenue. She noted that, in either case, the difference to Indiana American's customers of treating the surcharge in this case as revenue or CIAC would be minimal. She stated that the OUCC accepts Joint Petitioners' proposal to record the surcharge as operating revenue.

The Settlement Agreement provides that Indiana American is to advise the OUCC of any substantive modifications to the water purchase agreement with Boonville within the next ten years. If during the term of the 10-year surcharge there is a material change to the water purchase agreement with Boonville, which change is to the benefit of Indiana American, the parties have agreed that any of the parties or any customers of Yankeetown may propose to the Commission modifications to the surcharge based thereon by filing a petition with the Commission or appearing and raising the issue in any cause wherein Indiana American's general rates and charges are at issue.

The Settlement Agreement established that transaction costs to be included in rate base would be actual costs not to exceed the estimated \$50,000. The Settlement Agreement also expressly reserves the OUCC's right to review actual transaction costs and challenge the reasonableness of such costs in Indiana American's first general rate case that seeks to include such transaction costs in rate base.

7. Commission Discussion and Findings.

(a) Settlement Agreement. 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.

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

As set forth below, the Commission finds that the Settlement Agreement is reasonable and in the public interest and the authority and obligations proposed therein should be approved. With regard to future citation of this Order, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 Ind. PUC LEXIS 459 (IURC March 19, 1997).

(b) Public Convenience and Necessity. The evidence demonstrated that the Yankeetown Water System can be easily integrated into Indiana American’s existing system. The public now served by the Yankeetown Water System will benefit from Indiana American’s financing capability, management and technical expertise. Yankeetown Water System customers and Indiana American customers will benefit from the increased number of customers over which fixed costs will be spread. Finally, Yankeetown Water System customers will gain access to many programs that Indiana American uses to ensure customer satisfaction. Based on the evidence of record, the Commission finds that the acquisition and operation of the Yankeetown Water System by Indiana American on the terms described in the Asset Purchase Agreement is supported by public convenience and necessity and is in the public interest.

(c) Rates and Rules. Indiana American currently has on file with the Commission a schedule of rates and charges and rules and regulations applicable to water utility service provided by Indiana American in its Area One rate group. Consistent with the Asset Purchase Agreement, we find that, on and after the closing, Indiana American’s generally applicable rates and charges and rules and regulations for water service and private and public fire service applicable in Indiana American’s Area One rate group on file with and approved by the Commission should apply to services provided by Indiana American through the Yankeetown Water System, as the same are in effect from time to time, plus a \$10 monthly

surcharge to be charged to Indiana American customers served through the Yankeetown Water System for a period of ten (10) years from the date of closing.

(d) Accounting Treatment. Indiana Code §§ 8-1-2-12 and 14 give the Commission authority over the accounting procedures utilized by public utilities in Indiana. We note that the purchase price was reached through arm's length negotiations and was supported by Joint Petitioners' evidence. We also note that the OUCC considered the transaction as a whole and stipulated as part of its settlement agreement with Indiana American that in order to allow the transaction to proceed Indiana American should be permitted in this Cause to book as net original cost the purchase price plus transaction costs not to exceed \$50,000. In this Cause, it is appropriate to allow Indiana American to book as net original cost the purchase price plus reasonable transaction costs.

We find that Indiana American's proposed accounting and journal entries as described by Mr. Henson in his direct testimony and Petitioners' Exhibit JCH-6, should be approved and that the costs so reflected on the books and records of Indiana American be used as the original cost of such properties for accounting, depreciation, and rate base valuation purposes. We find that Indiana American's existing depreciation accrual rates approved by the Commission in Cause No. 43081 on November 21, 2006 and as included in the calculation of rates with the approval of Indiana American's rate case in Cause No. 43187 on October 10, 2007 should be applied on and after the closing date of the acquisition to depreciable property purchased from Yankeetown pursuant to the Asset Purchase Agreement.

(e) Encumbrances. We find that the encumbering of the properties comprising the Yankeetown Water System by subjecting such properties to the lien of Indiana American's General Mortgage as of the closing should be approved. We further find that the continued encumbrance on the properties comprising the Yankeetown Water System by Indiana American's assumption of the 2011 bond issue which includes a mortgage on the Yankeetown Water System assets as of the closing should be approved.

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

1. The Settlement Agreement shall be and hereby is approved in its entirety.
2. Joint Petitioners are hereby authorized to consummate the acquisition of the Yankeetown Water System by Indiana American on the terms described in the Asset Purchase Agreement as discussed herein.
3. Within three (3) months of closing, Joint Petitioner Yankeetown shall refund to the customers the deposit amounts remaining in its customer deposit fund. Any outstanding balances/arrearage amounts may be deducted from a particular customer's refund amount.
4. Indiana American is hereby authorized to charge customers currently served by the Yankeetown Water System the current rates and charges and apply the same rules and regulations for water service and private and public fire service applicable in Indiana American's

Area One rate group on file with and approved by the Commission, as the same are in effect from time to time, plus a monthly \$10 surcharge to be in effect for a period of ten years after closing.

5. Indiana American is hereby authorized to reflect the acquisition of the Yankeetown Water System on its books and records as of the closing by making the accounting and journal entries described in Finding No. 7(d) above.

6. The net original cost of the acquired property, as described in Finding No. 7(d) above, shall be used for accounting, depreciation and rate base valuation purposes after closing.

7. Indiana American shall be and hereby is authorized to apply its depreciation accrual rates on and after the closing date of the acquisition to depreciable property purchased from Yankeetown pursuant to the Asset Purchase Agreement.

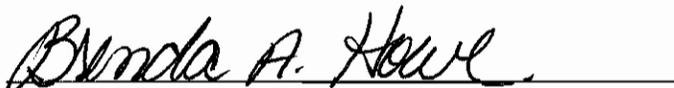
8. Indiana American is hereby authorized to encumber the properties comprising the Yankeetown Water System with the lien of Indiana American's mortgage indenture and to assume the 2011 bond issue including the encumbrance placed upon the Yankeetown Water System assets by the mortgage associated therewith.

9. 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

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT PETITION OF INDIANA-AMERICAN)
WATER COMPANY, INC. (“INDIANA)
AMERICAN”) AND THE YANKEETOWN)
WATER AUTHORITY, NEWBURGH,)
INDIANA (“YANKEETOWN”) FOR)
APPROVAL AND AUTHORIZATION OF: (A))
THE ACQUISITION BY INDIANA-AMERICAN)
OF YANKEETOWN’S WATER UTILITY)
PROPERTIES (THE “YANKEETOWN WATER)
SYSTEM”) IN WARRICK COUNTY, INDIANA)
IN ACCORDANCE WITH A PURCHASE)
AGREEMENT THEREFOR; (B) APPROVAL)
OF ACCOUNTING AND RATE BASE)
TREATMENT; (C) APPLICATION OF)
INDIANA AMERICAN’S AREA ONE RATES) CAUSE NO. 44400
AND CHARGES TO WATER SERVICE)
RENDERED BY INDIANA AMERICAN IN THE)
AREA SERVED BY THE YANKEETOWN)
WATER SYSTEM (“THE YANKEETOWN)
AREA”) ALONG WITH A MONTHLY)
SURCHARGE IN THE AMOUNT OF \$10 PER)
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APPLICATION OF INDIANA AMERICAN’S)
DEPRECIATION ACCRUAL RATES TO SUCH)
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PROPERTIES TO THE LIEN OF INDIANA)
AMERICAN’S MORTGAGE INDENTURE;)
AND (F) THE ASSUMPTION OF THE)
MORTGAGE ASSOCIATED WITH)
YANKEETOWN’S 2011 BOND ISSUE.

STIPULATION AND SETTLEMENT AGREEMENT

Joint Petitioners Indiana-American Water Company, Inc. (“Indiana American”) and Yankeetown Water Authority (“Yankeetown” and together with Indiana American, the “Joint Petitioners”), and the Office of Consumer Counselor (“OUCC”) enter into this Stipulation and Settlement Agreement. Joint Petitioners and the OUCC agree that the terms and conditions set

forth below represent a fair and reasonable resolution of all issues, subject to incorporation into a final order of the Indiana Utility Regulatory Commission (“Commission”) without any modification or condition that is not acceptable to Indiana American, Yankeetown or the OUCC. Joint Petitioners and the OUCC stipulate as follows:

1. The relief requested by Joint Petitioners should be granted. Joint Petitioners and the OUCC stipulate to the issuance by the Commission of a final order in the form attached hereto as Attachment A.

2. Indiana American should be authorized to consummate the acquisition by Indiana American of the water utility properties owned by Yankeetown (the “Yankeetown Water System”).

3. On and after the closing, Indiana American should be permitted to charge customers currently served by the Yankeetown Water System the then-current rates and charges applicable to Indiana American’s Area One rate group on file and approved by the Commission, as the same are in effect from time to time, plus a \$10 monthly surcharge for a period of ten (10) years from the date of closing.

4. Indiana American should be permitted to apply the same rules and regulations for water service and private and public fire service applicable to Indiana American’s Area One rate group on file with and approved by the Commission, as the same are in effect from time to time.

5. Based upon the particular facts of this Cause, the OUCC agrees that upon closing of the acquisition, Indiana American should be permitted to book an amount equal to the purchase price (\$1,995,000) plus reasonable transaction costs actually incurred not to exceed

\$50,000 for net original cost rate base. This treatment would effectively allow Indiana American to recover a return for ratemaking purposes equal to its weighted cost of capital as applied to the purchase price plus reasonable transaction costs and to recover the same through depreciation expense. The OUCC expressly reserves the right to review actual transaction costs in Indiana American's first rate case that includes the transaction costs in rate base, and challenge any such costs it considers unreasonable.

6. In addition, and based upon the particular facts of this Cause, the OUCC agrees that Indiana American should be permitted to record the \$10 monthly surcharge as operating revenue for accounting and ratemaking purposes. The parties acknowledge that the OUCC's agreement on the treatment of the monthly surcharge is predicated on the understanding that to the extent the surcharge is designed to offset the higher operating costs associated with the customers of the Yankeetown Water System continuing to receive water from the City of Boonville, treating the funds received from the surcharge as revenue is appropriate.

7. Within the next ten years, Indiana American agrees to advise the OUCC of any substantive modifications to the water purchase agreement with Boonville. Such notification shall include a copy of the modified agreement, a description of the change, and a reference to this Cause. If during the term of the 10-year surcharge there is a material change to the water purchase agreement with Boonville, which change is to the benefit of Indiana American, any of the parties hereto or any customers of Yankeetown may propose to the Commission modifications to the surcharge based thereon by filing a petition with the Commission or appearing and raising the issue in any cause wherein Indiana American's general rates and charges are at issue.

8. Following the closing, Indiana American should be permitted to apply its depreciation accrual rates approved by the Commission in Cause No. 43081 to the properties comprising the Yankeetown Water System.

9. The OUCC and Joint Petitioners stipulate and agree that within three (3) months of closing, Yankeetown shall refund to the customers the deposit amounts remaining in its customer deposit fund. Any outstanding balances/arrearage amounts may be deducted from a particular customer's refund amount, if applicable.

10. Joint Petitioners and the OUCC stipulate that all evidence that has been filed in this Cause with respect to the relief provided herein is admissible in evidence and that such evidence constitutes a sufficient evidentiary basis for a Commission Order approving this Stipulation. The parties waive cross-examination of each other's witnesses.

11. If this Stipulation is not approved in its entirety by the Commission, the parties stipulate that the terms herein shall not be admissible in evidence or discussed by any party in a subsequent proceeding. Moreover, the concurrence of the parties with the terms of this Stipulation is expressly predicated upon the Commission's approval of this Stipulation in its entirety by issuance of the Order in the form set forth in Attachment A without any material modification or any material condition deemed unacceptable by any of them. If the Commission does not approve the Stipulation in its entirety or if the Commission makes modifications to the final order that are unacceptable to any party, the Stipulation shall be null and void and shall be deemed withdrawn upon notice in writing by any party within 15 days after the date of the final order stating that a modification made by the Commission is unacceptable to the party. In the event the Stipulation is withdrawn, any party may request, and no other party shall oppose, the

convening of an attorneys' conference to establish a procedural schedule for the continued litigation of this proceeding.

12. Joint Petitioners and the OUCC stipulate that this Stipulation reflects a fair, just and reasonable resolution, and is agreed upon without prejudice and the ability of any party to propose a different term in future proceedings.

13. As set forth in the Order in *Re Petition of Richmond Power & Light*, Cause No. 40434, p. 10, Joint Petitioners and the OUCC stipulate and request the Commission to incorporate as part of its final order that this Stipulation, or the order approving it, not be cited as precedent by any person or deemed an admission by any party in any other proceeding except as necessary to enforce its terms before the Commission or court of competent jurisdiction.

14. The undersigned represent and stipulate that they are fully authorized to execute this Stipulation on behalf of the respective parties who will be bound thereby.

(signature page follows)

Indiana-American Water Company, Inc.

Date: 2/10/14

Alan J. DeBoy
Alan J. DeBoy, President

Yankeetown Water Authority

Date: _____

Mark Warren, President of Board of
Directors

Indiana Office of Utility Consumer
Counselor

Date: _____

Deputy Consumer Counselor

Indiana-American Water Company, Inc.

Date: _____

Alan J. DeBoy, President

Yankeetown Water Authority

Date: 2/11/14

Mark Warren
Mark Warren, President of Board of
Directors

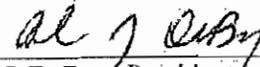
Indiana Office of Utility Consumer
Counselor

Date: _____

Deputy Consumer Counselor

Indiana-American Water Company, Inc.

Date: 2/10/14


Alan J. DeBoy, President

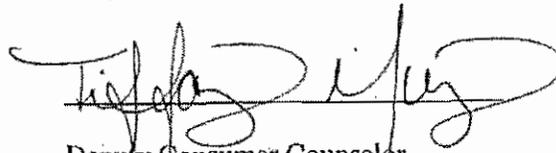
Yankeetown Water Authority

Date: _____

Mark Warren, President of Board of
Directors

Indiana Office of Utility Consumer
Counselor

Date: 2/12/14


Deputy Consumer Counselor