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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF) SHADY SIDE DRIVE WATER) CORPORATION FOR A NEW SCHEDULE) OF RATES AND CHARGES.)	CAUSE NO. 44431 U APPROVED: APR 16 2014
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ORDER OF THE COMMISSION

Presiding Officers:
Carol A. Stephan, Commissioner
Gregory R. Ellis, Administrative Law Judge

On November 26, 2013, Shady Side Drive Water Corporation (“Petitioner” or “Shady Side”) filed its Small Utility Rate Application for a change in rates and charges (“Application”) with the Indiana Utility Regulatory Commission (“Commission”) pursuant to the provisions of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Shady Side is seeking an increase of 89.31% or \$9,687 above its current water rates. On December 4, 2013, Shady Side filed additional information in support of its Application, including proofs of the notice it had published describing the filing of its Application as required by 170 IAC 14-1-2(b). Shady Side submitted a copy of its proposed rates and charges on December 6, 2013. The Commission’s Water and Sewer Division issued a Memorandum on December 9, 2013 stating Shady Side’s Application was complete. On February 24, 2014, the OUCC filed its report (“Report”) with the Commission as required by 170 IAC 14-1-4(a). The Report detailed its review of the Application and made several recommendations to the Commission concerning the relief requested by Shady Side. On March 5, 2014, Shady Side filed its response to the OUCC’s Report pursuant to 170 IAC 14-1-4(b).

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

1. Commission Jurisdiction and Notice. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1(a). The evidence presented by Shady Side in this Cause establishes that legal notice of the filing of the Application was published in accordance with applicable law and that Shady Side gave proper notice of the nature and extent of the relief it is seeking to its customers. 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 Shady Side is an Indiana public utility, provides water service to fewer than 5,000 retail customers and does not extensively serve another utility. The Application satisfies all of the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1 for treatment as a small utility. Therefore, the Commission has jurisdiction over the Petitioner and subject matter of this case.

2. Petitioner’s Characteristics. Petitioner is a not-for-profit public utility that provides water utility service to approximately 44 customers in a residential subdivision in

Monroe County, Indiana. Petitioner has its principal office at 8023 S. Shady Side Drive, Bloomington, Indiana. Petitioner purchases its entire water supply from the City of Bloomington (“Bloomington”). Petitioner’s service territory is adjacent to Bloomington’s water treatment plant. Petitioner’s distribution system consists of approximately 5,400 feet of two inch PVC pipe and has no storage facilities.

3. **Existing Rates and Relief Requested.** Shady Side was incorporated on July 19, 1989 and its existing rates were authorized in the Commission’s Order in Cause No. 38869. Shady Side is requesting an across-the-board increase of 89.31% in its rates and charges. The proposed increase would generate an additional \$9,687.00 in annual revenues. In addition, Shady Side is requesting authority to increase its non-recurring charge for connection fee, establish a non-sufficient funds (“NSF”) charge, and increase charges for reconnection.

4. **Test Period.** The test period selected for determining Shady Side’s revenues and expenses reasonably incurred in providing water utility service to its customers includes the twelve (12) months ending December 31, 2012. With adjustments for changes that are fixed, known and measurable, the Commission finds that this test period is sufficiently representative of Shady Side’s normal operations to provide reliable data for ratemaking purposes.

5. **Application.** In its Application, Shady Side indicated the proposed rate increase is to be used principally to pay for increased operating and maintenance costs. The proposed rate increase will also be used to fund certain extensions and replacements, consisting of meter replacement and main replacement. The Application indicates that Shady Side’s existing rates were authorized on July 18, 1990 and there have been no water rate increases for the Shady Side since that date. Shady Side explained that it has incurred increases in expenses, including an increase of approximately 45% for water imposed by the City of Bloomington starting on March 2, 2011. Shady Side also indicated it elected to use Root Accounting services to process bill payment and complete various reports required as well as provide annual and ongoing tax services. Shady Side noted that it has experienced net losses of nearly \$3,700.00 in 2011 and \$6,000.00 in 2012. Shady Side indicated that it cannot continue to absorb losses.

Shady Side’s Application also requests authority to increase its non-recurring charge for connection fee from \$1,350.00 to \$1,500.00 and establish a NSF charge of \$25.00. Shady Side also seeks to increase reconnection charges: (1) during regular business hours from \$25.00 to \$50.00 and (2) after regular business hours from \$37.50 to \$75.00.

A. **Revenue Adjustments.** Shady Side has proposed a *pro forma* increase of \$9,687.00 to test year revenue to cover its costs to provide water service.

B. **Expense Adjustments.** Shady Side proposed a *pro forma* increase of \$11.00 to test year expenses for the Public Utility Fees under Ind. Code ch. 8-1-6 (“IURC Fee”).

C. **Supporting Documentation.** As part of its Application and as required by 170 IAC 14-1-2, Shady Side included the following:

(1) A copy of the proposed notice of filing of the Application for rate change to be published in a newspaper of general circulation in any and all counties in which the utility renders service.

(2) A copy of the proposed written notice of the Application for rate change to be provided each customer.

(3) A copy of Resolution 99-1 authorizing the Application for rate change and signed by Shady Side's Board of Directors.

(4) A table of the comparisons of current and proposed rates.

(5) A verified statement by the manager of Shady Side that the utility does not have an outstanding indebtedness to the Federal government.

6. **OUCC Report.** The Report, which was prepared by OUCC Utility Analysts Charles E. Patrick and Larry M. McIntosh, was filed on February 24, 2014. The Report indicated the OUCC conducted a thorough analysis of the Shady Side's Application, reviewed its books and records, reviewed historical documents, and discussed various issues with team members. As a result, the OUCC Report recommends the Commission grant Petitioner an increase in rates of \$9,793.00. The OUCC also recommends the Commission deny Shady Side's requests to change its non-recurring charges.

The Report summarized and discussed the following key elements of the Shady Side's Application:

A. **Capital Improvements Plan.** The OUCC noted that in Schedule 7, attached to the Application, Shady Side proposes replacement of its original meters that were installed in the late 1980's and early 1990's. Shady Side requests \$904.00 per year to replace its residential customer meters. The OUCC indicated that it believes this is a necessary improvement and a reasonable estimate of costs.

The OUCC also explained that Shady Side has proposed to replace its two inch mains with six inch mains to provide for the future installation of fire hydrants. Shady Side requests \$1,642.00 per year to replace its mains. The OUCC believes this is a necessary improvement to provide fire protection and that the estimated cost of improvements is reasonable.

B. **Revenue Requirements.** The OUCC explained that rates for a not-for-profit water utility are calculated by first determining the amount of the adjusted or *pro-forma* net operating expenses based on the utility's current rates. The *pro-forma* amounts are based upon known recurring expenses, updated to include charges that are fixed, known, and measurable. In addition to operating expenses, applicable charges for required taxes, working capital, a provision for extensions and replacements, debt service, and debt service reserve requirements are also 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. *Pro forma* revenues at current

rates are then subtracted from the net revenue requirement to determine the net revenue increase required. The required increase in net revenue is then adjusted to include the additional IURC fee that will be due on these increased revenues.

The Report summarized the revenue requirements as presented by both Shady Side and the OUCC. The Report notes that Shady Side proposes a net revenue requirement of \$20,523.00 requiring a revenue increase of \$9,687.00, while the OUCC calculated a net revenue requirement of \$20,627.00 requiring a revenue increase of \$9,793.00. The OUCC indicates the revenue increase of \$9,793.00 will be sufficient to fully fund Shady Side's revenue requirements.

C. Operating Revenues. The OUCC agrees with Shady Side's test year operating revenues of \$10,847.00.

D. Expense Adjustments. The Report indicates the OUCC accepted Shady Side's proposed adjustments to: Director and Officer insurance expense increase of \$950.00, utility management fees charged by Bynum & Fanyo Utilities expense increase of \$3,059.00, and accounting services expense increase of \$89.00 for fees charged by Root Accounting. However, the OUCC disagreed with other of Shady Side's proposed adjustments, including: purchased water, depreciation, and the IURC Fee. The following adjustments proposed by the OUCC yield *pro forma* operating expenses of \$19,128.00:

- i. Purchased Water Expense: Shady Side did not make adjustment to purchased water expense. The OUCC discovered that Applicant had not recorded one month of purchased water in its test year. This amounted to an increase of \$104.00.
- ii. Depreciation Expense: The Report indicated that Shady Side calculated depreciation expense using a 3.33% depreciation rate and the OUCC used the Commission's composite rate of 1.7% for a water utility without production facilities. The resultant OUCC *pro-forma* calculation for depreciation expense was \$1,488.00. This yields a decrease of \$1,430.00 to test year operating expenses.
- iii. IURC Fee Expense: The OUCC calculated an increase of \$13.00 compared to Shady Side's proposed increase of \$11.00 which reflects the IURC Fee rate of .001329888% for fiscal year 2013-2014. Shady Side used an IURC Fee rate of 0.1178510%.

E. Non-Recurring Charges. The OUCC Report notes that Shady Side's Application requests authority to establish a NSF charge of \$25.00. Shady Side also seeks authority to increase its connection fee from \$1,350.00 to \$1,500.00 and its reconnection charge from \$25.00 to \$50.00 during business hours and \$37.50 to \$75.00 after regular business hours. The OUCC recommends establishment of the NSF charge, increase in the connection fee, and increases in its reconnection charge be denied because Shady Side did not provide any calculations or documentation to support the charges.

F. Working Capital. The OUCC explained that working capital is the money a utility needs to pay its operating expenses necessary to provide service until the revenues from that service are collected. The Report notes that Shady Side did not propose an annual working capital revenue requirement adjustment and that it has adequate working capital.

G. Recommendations. In its Report, the OUCC notes that Shady Side is a small not-for-profit corporation with limited resources, but it has provided only basic information from which to review its financial position and needs. The OUCC requests that the Commission require Shady Side to maintain monthly financial statements and supporting documentation that can be easily accessed.

The OUCC concluded by recommending the Commission authorize Shady Side to increase its rates by 90.28% to generate \$9,793.00 in additional revenues.

7. Shady Side's Response. Petitioner filed a response to the OUCC's Report on March 5, 2014. The response included documentation from Petitioner's bank that NSF charges are \$30.00, which is \$5.00 more than Petitioner originally requested. The response also included documentation from Bynum Fanyo Utilities indicating that due to increased costs it needed to increase charges to customers for reconnection. Petitioner also indicated that it will not increase the connection fee of \$1,350.00 because it does not anticipate any new connections.

8. Commission Discussion and Findings.

A. Revenue Requirements. The evidence in this Cause demonstrates that Petitioner originally proposed a net revenue requirement of \$20,523.00, necessitating a \$9,687.00 or 89.31% across-the-board rate increase. The OUCC proposed an across the board rate increase of \$9,793.00 or 90.28%, based on a \$20,627.00 net revenue requirement. Because Petitioner operates as a not-for-profit utility, its revenue requirements are determined by Ind. Code § 8-1-2-125. A not-for-profit utility is required to furnish reasonably adequate services. The charge for such services must be nondiscriminatory, reasonable, and just. A reasonable and just charge for water service is a charge that will produce sufficient revenue to pay all legal and other necessary expense incident to the operation of the utility's system. In regards to Petitioner, this includes operation and maintenance expenses, extensions and replacements, and taxes. A comparison of the OUCC's and Shady Side's revenue requirements and proposed rate increase is summarized in the table below:

Revenue Requirements	Petitioner	OUCC
Operation & Maintenance Exp.	\$ 18,674	\$ 19,128
Extensions and Replacements	2,546	2,546
Taxes Other than Income	475	125
Total Revenue Requirements	21,695	21,799
Less: Interest Income	1,172	1,172
Net Revenue Requirements	20,523	20,627
Less: Revenues at Current Rates	10,847	10,847
Revenue Increase Required Excluding Taxes	9,676	9,780
Times: URT	1.0012	1.0013
Net Revenue Increase Required	\$ 9,687	\$ 9,793
Recommended Percentage Increase	89.31%	90.28%

B. Calculation of Rate Increase. The percentage rate increase is calculated by taking the net revenue increase required and dividing it by the total revenues subject to increase. The Commission finds the 90.28% increase proposed by the OUCC to be reasonable and supported by the evidence.

C. Non-Recurring Charges. Although Petitioner originally requested authority to charge its customers \$25.00 for NSF fees, it submitted evidence indicating the fee that its bank charges for NSF is \$30.00. We find it reasonable that Petitioner be authorized to recover the actual costs being incurred for the NSF fee. Therefore, Petitioner shall be authorized to establish a NSF charge of \$30.00.

Concerning reconnection fees, Petitioner proposed to increase its current charge for reconnection of water services following disconnection from \$25.00 to \$50.00 during regular business hours and from \$37.50 to \$75.00 after regular business hours. The evidence demonstrates the amount Bynum Fanyo Utilities charges Petitioner for reconnection of its customers will be increasing to \$50.00 and \$75.00 respectively. We find Petitioner's request to increase its reconnection fees to be just and reasonable. Therefore, Petitioner is hereby authorized to increase its reconnection charge for water services following disconnection to \$50.00 during regular business hours and \$75.00 after regular business hours. We note Petitioner withdrew its request to increase its connection fees.

D. Record Keeping. The OUCC recommends Shady Side maintain monthly financial statements and supporting documentation in order to provide the Commission and the OUCC with required information. We agree. Maintaining monthly financial information is a basic tenant of running a sound business operation and should not be overly burdensome considering Shady Side's size. Based on the evidence, we find it appropriate that Shady Side maintain monthly financial statements and supporting records of the utility.

9. Effect on Rates. The results of a residential customer using 5,000 gallons per month would be an increase of \$19.83 per month from \$21.96 to \$41.79 based on the approved rate adjustments.

10. **Alternative Regulatory Program (“ARP”).** If Petitioner elects to participate in the Small Utility ARP Program in accordance with procedures approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied are \$15,977.00. This amount excludes \$3,151.00 approved for purchased water. Taxes Other Than Income of \$138.00 are also eligible expenses to which the Annual Cost Index will be applied. All other components of Petitioner’s revenue requirement will remain unchanged.

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

1. Consistent with the above findings, an increase of 90.28% or \$9,793.00 for Shady Side’s water service rates and charges is hereby authorized.

2. Prior to placing into effect the rates and charges approved herein, Shady Side shall file with the Water/Sewer Division of the Commission a schedule of rates and charges in a manner consistent with this Order and the Commission’s rules for filing such schedules. When approved by the Commission’s Water/Sewer Division, such schedule shall cancel all prior rates and charges.

3. Shady Side is hereby approved to collect non-recurring charges of \$30.00 for NSF receipts and increase its charge for reconnection of water services following disconnection to \$50.00 during regular business hours and \$75.00 after regular business hours.

4. Shady Side shall maintain monthly financial statements and supporting records of the utility.

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

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

APPROVED: APR 16 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**