

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF THE CITY)
OF AUBURN, INDIANA BY ITS MUNICIPALLY-)
OWNED ELECTRIC UTILITY FOR APPROVAL OF A)
NEW SCHEDULE OF RATES AND CHARGES FOR)
ELECTRIC SERVICE AND AUTHORITY TO)
IMPLEMENT A TWO-PART TRACKING)
MECHANISM TO DISTINGUISH BETWEEN)
DEMAND AND ENERGY COSTS IN ITS PERIODIC)
TRACKER FILINGS)

CAUSE NO. 44472

APPROVED: DEC 17 2014

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ORDER OF THE COMMISSION

Presiding Officers:

Angela Rapp Weber, Commissioner

Marya E. Jones, Administrative Law Judge

On March 27, 2014, the City of Auburn, Indiana, by its municipal electric utility, (“Petitioner”), filed a Verified Petition seeking approval of a new schedule of rates and charges for electric service and authority to implement a two-part tracking mechanism to distinguish between demand and energy costs in its periodic tracker filing. Petitioner prefiled its case-in-chief on March 27, 2014, consisting of the testimony and exhibits of its witnesses Stuart L. Tuttle and John R. Skomp. On March 31, 2014, Metal Technologies, Inc. (“MTI”) filed a Petition to Intervene, which was granted on April 11, 2014. On June 27, 2014, Petitioner prefiled the supplemental testimony and exhibits of John R. Skomp supporting the two-part tracking mechanism.

Pursuant to notice duly published as required by law, the Commission held a Field Hearing on June 11, 2014, at the Auburn City Council Chambers, 210 East Ninth Street, Auburn, Indiana. During the Field Hearing, one member of the general public provided oral comments. On July 30, 2014, MTI prefiled its case-in-chief consisting of the testimony of James T. Selecky. On August 1, 2014, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled its case-in-chief consisting of the testimony and exhibits of its witnesses Duane P. Jasheway, Eric M. Hand, and Crystal L. Thacker.

On September 9, 2014, Petitioner, MTI, and the OUCC (collectively the “Parties”) filed a Joint Stipulation and Agreement (“Settlement Agreement”) and their respective supporting evidence.

The Commission convened a Settlement Hearing in this Cause on September 24, 2014, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Counsel for the Parties appeared and participated in the hearing. The

Parties offered into evidence their respective direct testimony and exhibits. Petitioner offered into evidence Joint Exhibit 1, which consisted of the Settlement Agreement, along with supporting exhibits, and Joint Exhibit 2, which included the rate schedules. The Parties offered into evidence their respective testimony and exhibits in support of the Settlement Agreement and waived cross-examination of all witnesses. No members of the general public appeared or were present at the evidentiary hearing.

The Commission, having considered the evidence and applicable laws, now finds as follows:

1. **Statutory Notice and Commission Jurisdiction.** Due, legal, and timely notice of the public hearings conducted by the Commission in this Cause was given and published as required by law. The City of Auburn, Indiana owns and operates an electric utility system furnishing retail electric service to the public and is a municipally owned utility within the meaning of Ind. Code § 8-1-2-1(h) and 8-1.5-1-10. Petitioner's rates and charges for electric service are subject to the jurisdiction of the Commission in the manner and to the extent provided by Ind. Code § 8-1.5-3-8(f). The Commission, therefore, 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 7,261 residential, commercial, and industrial customers within its assigned service area boundaries. Petitioner owns and operates electric transmission, distribution, substation, and related facilities, which are used and useful in providing adequate and reliable service to its customers. Petitioner purchases all of its electric power and energy requirements from American Electric Power Company ("AEP") pursuant to the terms of a Power Purchase Agreement.

3. **Existing Rates, Test Year, and Relief Requested.** Petitioner's current schedule of rates and charges was placed into effect following the Commission's Order in Cause No. 38682 on July 28, 1989. The test period selected for determining Petitioner's revenues and expenses reasonably incurred in providing electric utility service to its customers is the 12 months ended June 30, 2013, adjusted for changes that are fixed, known, and measurable, and occur within 12 months following the end of the test year. In its case-in-chief, Petitioner proposed an increase of \$2.79 million, or 8.92%, in its annual operating revenues from rates and charges for service. Petitioner proposed to restructure its rates and charges based upon the results of a cost-of-service study ("COSS") prepared and sponsored by Mr. Skomp.

Petitioner requested approval of a five-year capital improvement plan with a budget of approximately \$10,000,000.

Petitioner also proposed to implement a two-part tracking mechanism to distinguish between demand and energy costs in its periodic tracker filings, which includes the Industrial Demand Control Incentive Program ("IDIP").

4. **Petitioner's Direct Evidence.** Stuart L. Tuttle, Superintendent, Auburn Municipal Electric, testified that Petitioner's base rates have remained constant for the past 24 years and that the purpose of his testimony was to support the rate increase and provide details about the Petitioner's five-year capital improvement plan. Mr. Tuttle stated Petitioner's existing rates and charges are no longer reasonable within the meaning of Ind. Code § 8-1.5-3-8(c), and are not, therefore, adequate to provide efficient electric service for the protection of the health, well-being, and property of Petitioner and its electric customers. He stated the proposed increase will provide Petitioner with sufficient funds to pay its legal and necessary expenses, and to continue to provide adequate and reliable electric service to its customers.

Mr. Tuttle described in detail the five-year capital improvement plan and the need for these improvements, which are summarized by year as follows:

2014

- **Circuits Project:** Re-conductoring approximately three quarters of a mile of existing distribution line to improve load flow, increase reliability, and reduce system loss;
- **Two Extension and Replacement Projects:** Installation and/or replacement of distribution lines to enhance power reliability, system reliability, and switching flexibility, ensuring the provision of safe and reliable electric service;
- **Two Transmission Line Improvements Projects:** Installation of two new 69kV transmission lines totaling approximately six miles to reduce line losses, improve switching flexibility, and provide adequate back-up for maintenance or an unforeseen outage; and
- **Vehicle Fleet Project:** Addition of a service bucket truck to Petitioner's fleet, rebuild a line truck, addition of a new pickup truck, and replacement of two pickup trucks.

2015

- **Transmission Line Improvement Project:** Final phase of the 2014 project to install 4.8 miles of new 69kv line from County Road 427 and County Road 34 to the Grandstaff substation; and
- **Vehicle Fleet Project:** Addition of a new service bucket truck, rebuild of a line truck, and addition of a one ton service truck.

2016

- **Two Circuits Projects:** Installation of approximately 113 miles of three phase distribution line and approximately three quarters of a mile of dual circuit

distribution line to increase reliability and flow capability and flexibility at the West 15th Street and Clinton Street substations;

- **Demolition and Construction Project:** Addition to the existing materials warehouse to meet Petitioner's need for more indoor warehousing to store equipment thereby increasing its lifespan; and
- **Vehicle Fleet Project:** Replacement of an old bucket truck and a digger and addition of a pole trailer.

2017

- **Substation Project:** Installation of a new 69-12.47kV substation, which would have a rated capacity of 12/16/20MVA and include a main transmission line and four distribution feeders. The substation will include dual feed at 69kV from incoming lines 6908 and 6909; and
- **Vehicle Fleet Additions Project:** Addition of a service truck, replacement of a tree trimming bucket truck and pickup truck.

2018

- **Two Transmission Line Improvements Projects:** Installation of approximately three quarters of a mile of new 69kV line extension across I-69 to the Scot Industry substation, and installation of a 69kV circuit breaker at the Scot Industries substation to accommodate the 69kV line extension thereby increasing system reliability and flow capability.
- **Circuits Project:** Conversion of some circuits within the City of Auburn from overhead to underground facilities to reduce tree trimming costs, callouts, and unplanned outages; and
- **Vehicle Fleet Project:** Addition of a new stringing trailer, and replacement of a brush chipper to ensure the efficient operation and work of the crews.

Mr. Tuttle testified the estimates of the five-year capital improvement plan are reasonable and can be relied upon by the Commission to establish appropriate rates and charges. The estimated spending on the five-year capital improvement plan is \$10,239,861.

Mr. Skomp, a Certified Public Accountant and Partner with Crowe Horwath LLP, stated that the purpose of his testimony is to present the revenue requirements for Petitioner, to provide support for the COSS prepared in collaboration with Spectrum Engineering, and to discuss how Petitioner plans to modify its current tracking and fuel cost adjustment factors.

Mr. Skomp testified that Petitioner selected as its test year the 12 months ended June 30, 2013. Then he made eight adjustments to the test year results to produce an adjusted statement of income which shows the Petitioner would generate a net operating loss of over

\$2 million dollars. Thus, Mr. Skomp recommended that Petitioner be permitted to increase its rates and charges by 8.92% to produce \$34.5 million in operating revenues.

In arriving at this recommendation, Mr. Skomp made the following eight revenue adjustments:

1. Petitioner's revenue was adjusted downward by approximately \$400,000 because MTI switched from Rate Code 45T to Rate Code 45, saving MTI approximately \$400,000 annually, thereby causing Petitioner to lose that revenue.
2. Petitioner's Purchased Power expense was increased to account for a slight increase in cost due to a new contract with its wholesale power provider, AEP, effective July 1, 2013.
3. Petitioner's test year Operations and Maintenance ("O&M") expenses were adjusted for the change in salaries and wages of current employees and for three proposed additional employees.
4. Petitioner's test year expenses for the related change in Petitioner's contributions to the Public Employees Retirement Fund ("PERF") were adjusted for the actual and proposed employees.
5. Petitioner's Federal Insurance Contribution Act ("FICA") contributions were adjusted for the actual and proposed employees.
6. Petitioner's depreciation expense was increased since construction that was underway as of June 30, 2013, was completed and placed in service.
7. Petitioner's utility receipts tax amount was adjusted to account for Petitioner's anticipated additional tax payments.
8. Petitioner's level of contribution in lieu of property taxes was adjusted as a result of the increase in the net utility plant in service.

Mr. Skomp noted that the rates and charges presented were approved by the Common Council of the City of Auburn on November 19, 2013. He opined that the rates and charges developed in the COSS were fair and equitable.

Mr. Skomp testified that Petitioner is proposing a two-part tracker with both a demand component and an energy component, which would be implemented for demand metered rate classes¹ on a going-forward basis. Petitioner developed the proposed two-part tracker at the request of and in collaboration with MTI. He explained that MTI was interested in the

¹ Non-demand metered rate classes would continue to see a tracking factor that would be similar to the one that is currently applied. The rate classes are listed in Petitioner's Exhibit JRS-2, page 2.

modification of the wholesale power cost tracker in a way that would allow MTI to benefit from Petitioner's lower wholesale demand costs during off-peak periods.

Mr. Skomp said Petitioner's current wholesale power cost tracker recovers changes in the wholesale cost of purchased power from customers based on the individual customer's kilowatt hour usage, regardless of the customer's rate class. Thus, the use of a two-part tracker more appropriately aligns recovery of any fluctuation in the cost of wholesale power with the customer class responsible for an increase or decrease in cost. And the two-part tracker would send better pricing signals to Petitioner's large commercial and industrial customers, which would allow them to make appropriate adjustments to their usage patterns. The monthly wholesale power cost that is not assignable to the demand-metered customer classes will be assigned to energy-only-metered ratepayers and Light Rate Schedules MSL and OSL. Mr. Skomp said the tracker would recover only the actual changes in cost of wholesale power.

Mr. Skomp provided initial wholesale tracking factors and said they are not derived using actual data but rather forecasted data. Thus, projected wholesale power costs will be reconciled with actual wholesale power costs and revenues collected.

5. OUCC's Direct Evidence. Duane P. Jasheway, Utility Analyst for the OUCC testified that Petitioner proposed an increase in base rates of \$2,792,085, or 8.92%, but that he determined Petitioner's rates should be increased by \$2,542,780, or 8.12%, for the test year ended June 30, 2013. This amount is \$249,305 less than the increase requested by Petitioner. He accepted Petitioner's revenue adjustments one, two, six, seven, and eight. However, in his examination of Petitioner's test year expense amounts, Mr. Jasheway explained that Petitioner incurred a significant amount of expense related to fiber optics in its Outside Service Miscellaneous Services account. He noted that this expense of \$44,173 should have been capitalized and recommended this expense be removed.

Mr. Jasheway explained that Petitioner calculated its Working Capital using August 31, 2013 balances for its Operating Fund and Operating Reserve Fund. Petitioner explained that these balances were used because they were more representative of these Funds' balances than the test year end date of June 30, 2013, which were abnormally low. He said the OUCC accepted the August 31, 2013 balances for the Working Capital calculation. But, the OUCC's adjustment for O&M expense (discussed by Ms. Thacker below) caused the OUCC's recommendation for Working Capital to differ from Petitioner's.

Mr. Jasheway also testified that he reviewed Petitioner's 2012 Annual Report and noted many inconsistencies and discrepancies in the numbers between the Annual Report and exhibits submitted by Petitioner in this Cause. The OUCC issued a data request to Petitioner seeking clarification of those differences. Petitioner acknowledged that several items were omitted and that the Annual Report contained computational errors. Mr. Jasheway recommended Petitioner file an amended 2012 Annual Report with the Commission to explain, correct, and clarify these inconsistencies.

Mr. Jasheway recommended the Commission accept the OUCC's adjustments to Petitioner's proposed rate change resulting in a rate increase of \$2,542,780, or 8.12 %, and that the Commission also require Petitioner to file an amended 2012 Annual Report.

Crystal L. Thacker, Utility Analyst at the OUCC, disagreed with Petitioner's O&M expense adjustments three, four, and five. Ms. Thacker explained that Petitioner made two adjustments to test year salary expenses, one by \$44,160 to account for increased salaries and the other by \$169,000 to account for new hires. Ms. Thacker rejected the \$169,000 figure citing 170 IAC 1-5-5 and the fact that as of June 30, 2014, Petitioner had not filled the proposed new positions. Only the \$44,160 increase to existing payroll expense was accepted. Similarly, Ms. Thacker recommended reducing Petitioner's PERF adjustment of \$25,990 by \$5,254 to reflect a proposed increase of \$20,736 for actual employees only, which resulted in a pro forma PERF expense of \$197,812. She explained that since the OUCC recommended removing the salary and wages for the three proposed new positions, the related PERF expense for these proposed new positions should be removed as well. Finally, using the same rationale for salary and wages and PERF, Ms. Thacker reduced Petitioner's FICA expense by \$12,928 to reflect the removal of the three proposed employees, for a total FICA expense of \$106,568.

Eric M. Hand, Utility Analyst at the OUCC, testified regarding Petitioner's COSS. He said that Mr. Skomp provided no explanation for the theories and/or cost causation principles underlying the COSS. Mr. Hand identified three areas of concern with the COSS. First, Mr. Hand testified that Petitioner's proposed class-by-class rate change is unfair because the residential class received a rate increase of 20.08%, while large industrial customers (Rate Class 45) received a rate increase of 1.39%.

Second, Mr. Hand Mr. Hand argued that Petitioner does not explain how or why it believes its current Commission-approved base rates are no longer cost-based. Mr. Hand noted that Petitioner proposed to reduce the current revenue allocation to High Voltage Large Power from 39.1% to 35.8%, and assign a nominal rate increase of 1.39% to large industrials. Also, all other classes except Rate Class 35 and Rate Class 44 would receive rate increases ranging from 10.35% to 23.76%. According to Mr. Hand, Petitioner provided no explanation for such widely divergent results; thus, the OUCC could not evaluate the reasonableness of the proposed allocations.

Third, Mr. Hand offered testimony about Mr. Skomp's proposal for a two-part tracker based on demand (kW) and energy (kWh). He explained that Petitioner's current methodology is based on energy (kWh). But, Petitioner provided no explanation about how the two-part tracker will impact the various rate/classes. At a minimum, Petitioner must put forth an analysis and explanation of how this proposal would affect Petitioner's various rate classes going forward.

Mr. Hand recommended the Commission reject Petitioner's COSS and apply any rate increase approved in this Cause across-the-board among the rate classes. If the Commission finds Petitioner's COSS to be reasonable, then the principle of gradualism should be invoked

to avoid large and abrupt rate increases. The Commission should also require Petitioner to submit a COSS in its next rate case with evidence explaining the cost causation theories and principles used. Finally, Mr. Hand recommended the Commission defer consideration of Petitioner's wholesale power allocation methodology to a future proceeding and that such a proposal should be accompanied by analysis and an explanation of how the proposal impacts various rate classes.

6. MTI's Direct Evidence. Mr. James T. Selecky, Managing Principal, Brubaker & Associates, testified on behalf of MTI concerning Petitioner's two-part tracking mechanism and the proposed IDIP.²

Mr. Selecky testified that the current wholesale Power Purchase Agreement between Indiana Michigan Power Company and Petitioner charges over 50% of the costs based on system demand. In the previous contract, nearly all of the costs were energy related. Mr. Selecky stated that with the two-part tracker, demand and energy costs will be more properly assigned to the customers causing the costs. Further, he argued that the two-part tracker does not impact Petitioner's revenue requirement or total cost of service.

With respect to Petitioner's IDIP, Mr. Selecky said it provides a cost-based mechanism to industrial customers to use additional demand when that usage does not increase Petitioner's wholesale capacity charge. Mr. Selecky noted the IDIP allows Petitioner and its industrial customers to more efficiently utilize purchased capacity. The IDIP will not cause any additional costs under the wholesale power contract to be shifted to other customer classes.

He recommended the Commission approve Petitioner's proposed two-part wholesale power cost tracker and IDIP.

7. Settlement Agreement and Evidence. According to the parties, the Settlement Agreement resolves the issues raised by the Parties in this Cause. The Parties agreed Petitioner should be allowed to raise its rates and charges and implement the two-part tracking mechanism. The terms of the Settlement Agreement are summarized below.

The Parties agreed that Petitioner's pro forma operating revenues from retail sales should be increased by \$2,542,780 to arrive at pro forma total operating revenues of \$34,377,757. This represents an 8.12% increase in rates and charges from sales to retail customers. The Parties agreed that the revenue requirement should be allocated to

² The Commission notes that the only evidence Petitioner provided concerning the IDIP is in Appendix B of its proposed tariff, which outlines the terms and conditions of this program. According to Part III of Appendix B, the IDIP would be available to certain industrial customers who own and maintain a complete substation and take three-phase service with certain minimum load requirements. The purpose of the IDIP is to offer capacity without a demand charge to those customers whose load doesn't increase Petitioner's wholesale capacity charge. Thus, customers with high monthly load factors that are greater than 90% of Petitioner's load factor will receive a 2% discount on their monthly bills. The IDIP is part of Petitioner's proposed two-part tracker.

Petitioner's customer classes in the manner set forth in Joint Settlement Exhibit 2, which is attached to the Settlement Agreement. The agreed-upon percentage increases for each customer class are also depicted in Joint Settlement Exhibit 2. The Parties agreed that in its next rate case, any COSS filed by Petitioner will be accompanied by testimony that describes in reasonable detail the cost causation theories and allocation methodologies associated with the study.

The Parties also agreed to the implementation of the proposed two-part tracking mechanism. Petitioner will include residential bill impacts in its tracker filings based on 1000 kWh at the currently approved rates compared to the proposed rates. The Settlement Agreement further states that the OUCC and Petitioner have engaged in communications regarding Petitioner's significant efforts to implement smart grid and have agreed to continue collaborative communications regarding smart grid upon the OUCC's request.

Mr. Skomp testified in support of the Settlement Agreement. He stated that the agreed-upon increase in operating revenues will produce an income sufficient to maintain Petitioner's property in a sound physical and financial condition and allow Petitioner to render adequate and efficient electric service. To mitigate the impact of the rate increase on the residential customer classes, the Parties agreed to apply all of the adjustments the OUCC recommended for Petitioner's proposed revenue requirements to the residential customer classes. He explained the residential all-electric rate class will receive a 12.09% rate increase compared to the proposed 17.22%; whereas, residential customers that use gas and electricity will receive a 12.58% increase instead of the 20.08% proposed rate increase. In addition, the High Voltage Large Power class, Rate Code 45, which includes MTI, will receive a rate increase slightly greater than that established by Petitioner's COSS.

Mr. Skomp stated that the Parties also agreed that Petitioner's proposed two-part tracking mechanism should be approved. Mr. Skomp explained the two-part tracker's design allows eligible customers to benefit from Petitioner's lower wholesale demand costs during off-peak periods. This tracker will recover only the actual changes in costs of wholesale power with the price fluctuations paid for by the customer. Mr. Skomp noted this tracker mechanism will send better price signals to Petitioner's large commercial and industrial customers, which will allow them to make appropriate adjustments to their usage patterns. Mr. Skomp also explained that Petitioner agreed to provide the residential bill impact statements in its tracker filings based upon 1000 kWh at the currently approved rates compared to the proposed rates.

Mr. Jasheway testified that reducing the residential gas and electric customers' increase from 20.08% to 12.58% was a significant improvement. He also explained that the Settlement Agreement provides safeguards related to concerns the OUCC raised regarding Petitioner's lack of support and explanation for its COSS and the proposed two-part tracking mechanism. Mr. Jasheway concluded that the Settlement Agreement establishes a reasonable and balanced plan that addresses the issues and is in the best interest of ratepayers.

Mr. Selecky said that the Settlement Agreement provides rates that are reasonable, consistent with appropriate ratemaking principles, and in the public's best interest. The increase for Rate Code 45, MTI's rate, was used to reduce the increase to the residential rate classes. Mr. Selecky noted that the proposed two-part tracker would enhance the extent to which Petitioner's rates reflect cost-causation principles and will fairly allocate costs to customer classes.

8. Commission Discussion and Findings. The Commission starts with a general discussion of settlement agreements. 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. 8-1.5-3, and that such agreement serves the public interest.

Based on the evidence presented, the Settlement Agreement ensures that Petitioner's rates are non-discriminatory, just, and reasonable as required in Ind. Code § 8-1.5-3-8. Residential customers would have experienced an increase of approximately 20% under Petitioner's proposal, and the Settlement Agreement reduces it to approximately 12%, which alleviates concerns related to rate shock for this customer class. The Settlement Agreement also provides Petitioner with sufficient revenues to continue to operate in a safe and reliable way. Thus, Petitioner's current rates and charges for retail electric service shall be increased by \$2,542,780 to produce total operating revenues of \$34,377,757 as detailed below:

Operations and Maintenance Expense	\$31,306,307
Extensions and Replacements	\$2,047,972
Taxes other than Income Taxes	\$738,758
Working Capital	<u>\$249,121</u>
Total Revenue Requirement	\$34,342,158
Plus: Utility Receipts Tax (1.4% of increase)	<u>\$35,599</u>
Annual Revenue Requirement	<u>\$34,377,757</u>

The Commission also finds that the revenue requirement should be allocated to Petitioner's customer classes as set forth in Joint Settlement Exhibit 2, and Petitioner shall include in its tracker filings the residential bill impacts.

The Commission further finds Petitioner is permitted to implement its proposed two-part tracker as set forth in the evidence and Settlement Agreement. We note that Petitioner has agreed to include residential bill impacts in its tracker filings, which will include a calculation for each residential rate class of the bill based on 1000 kWh at the currently approved rates compared to the proposed rates. The two-part tracker will allow Petitioner's large industrial and commercial customers to make appropriate adjustments to their usage patterns and ensure that customers causing costs pay for them.

The Commission notes that the Parties didn't directly address in the Settlement Agreement the proposed five-year capital improvement plan. But, Joint Settlement Exhibit No. 1 incorporates \$2,047,972 in an Annual Capital Improvements account. This amount represents the average capital improvements funded through revenues for 2014 through 2018. We find that the Petitioner's proposed five-year capital improvement plan is reasonable, ensures Petitioner's continued safe and reliable operation of its utility, and is thus approved.

The Parties also didn't directly address the IDIP in the Settlement Agreement and supporting evidence. The Parties did agree in the Settlement Agreement to the approval of the two-part tracking mechanism as set forth in Appendices A and B of Petitioner's proposed tariff filed in this Cause. As discussed in footnote 2, Appendix B provides the details of the IDIP, and the IDIP is a component of the two-part tracking mechanism. The Commission finds that the IDIP is a reasonable component of the two-part tracking mechanism and shall be implemented.

Thus, the Commission finds that the Settlement Agreement, a copy of which is attached to this order and incorporated into it, is a reasonable resolution of the issues presented in this Cause, is in the public interest, and is approved.

The Parties agree the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose except to the extent necessary to implement or enforce its terms. But, with regard to future use, citation, or precedent of the Settlement Agreement, we find that our approval of the terms of the Settlement Agreement should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC March 19, 1997).

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

1. The Settlement Agreement among the Petitioner, the OUCC, and MTI filed in this Cause is approved.

2. Petitioner is authorized to increase its annual revenue from retail rates and charges by \$2,542,780, or 8.12%, to produce pro forma total operating revenues of \$34,377,757.

3. Petitioner is authorized to implement its five-year capital improvement plan.

4. Petitioner's rate increase is allocated to Petitioner's customer classes as set forth in Joint Settlement Exhibit 2.

5. Petitioner is authorized to implement the proposed two-part tracking mechanism, including the IDIP.

6. Petitioner shall include residential bill impacts in its tracker filings based on 1000 kWh at the currently approved rates compared to the proposed rates for each residential rate class.

7. Petitioner shall file with the Electricity Division of the Commission new schedules of rates and charges before placing in effect the rate increase 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.

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

Commission Charges:	\$ 1,858.17
OUCG Charges:	\$ 15,492.52
Legal Advertising Charges:	\$ <u>231.49</u>
TOTAL	\$ 17,582.18

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

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: DEC 17 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

FILED
September 09, 2014
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

~~IN THE MATTER OF THE PETITION OF THE CITY)
OF AUBURN, INDIANA BY ITS MUNICIPALLY-)
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MECHANISM TO DISTINGUISH BETWEEN)
DEMAND AND ENERGY COSTS IN ITS PERIODIC)
TRACKER FILINGS)~~

CAUSE NO. 44472

**JOINT STIPULATION AND AGREEMENT BETWEEN
AUBURN MUNICIPAL ELECTRIC UTILITY, METAL TECHNOLOGIES, INC. AND
THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

On March 27, 2014, the City of Auburn, Indiana, by its municipal electric utility, (“Petitioner” or “Auburn”), filed with the Indiana Utility Regulatory Commission (“Commission”) a Verified Petition seeking approval of a new schedule of rates and charges for electric service and authority to implement a two-part tracking mechanism to distinguish between demand and energy costs in its periodic tracker filing. Petitioner filed its direct testimony and exhibits in support of the requested rate relief on March 27, 2014 and supplemental testimony supporting the two-part tracking mechanism on June 27, 2014. Metal Technologies, Inc. (“MTI”) filed its case-in-chief on July 30, 2014 and the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its case-in-chief on August 1, 2014. Prior to the evidentiary hearing, Petitioner, MTI and the OUCC (collectively the “Parties”) communicated with each other regarding the possibility of settling this Cause and reached an agreement with respect to all of the issues before the Commission. The Parties agree to the following matters and request the Commission to enter a Final Order consistent with the proposed Order to be jointly filed by the Parties.

1. Petitioner's Operating Revenues. The Parties have reached an agreement concerning the revenue requirements for Petitioner under IC 8-1.5-3-8, which agreement is reflected in the accounting schedule attached as Joint Settlement Exhibit 1. The Parties agree that Petitioner's total test year pro forma operating revenues are \$31,834,977. As shown on Joint Settlement Exhibit 1, the Parties agree that Petitioner's pro forma operating revenues from retail sales should be increased by \$2,542,780 in arriving at the pro forma total operating revenues at proposed rates of \$34,377,757, representing an 8.12% increase in rates and charges from sales to retail customers.

2. Petitioner's Annual Revenue Requirements. Petitioner's annual revenue requirements determined pursuant to IC 8-1.5-3-8 on the evidence of record and agreed to by the Parties, are as follows:

a. Purchased Power and Operation and Maintenance Expense. Petitioner's annual revenue requirement for purchased power and other operation and maintenance expenses is \$31,306,307.

b. Extensions and Replacements ("E&R"). Petitioner's annual revenue requirement for E&R is \$2,047,972.

c. Taxes Other than Income Taxes. Petitioner's annual revenue requirement for taxes other than income taxes is \$738,758.

d. Working Capital Funding. Petitioner's annual revenue requirement to maintain adequate working capital is \$249,121.

e. Utility Receipts Tax. The Parties agree that Petitioner's total cash revenue requirement should be increased by \$35,599 to account for the increase in Petitioner's

Indiana Utility Receipts Tax resulting from the proposed rate increase.

3. Petitioner's Aggregate Annual Revenue Requirement. Petitioner's annual

revenue requirement is \$34,377,757, as detailed below:

Operations and Maintenance Expense	\$31,306,307
Extensions and Replacements	\$2,047,972
Taxes other than Income Taxes	\$738,758
Working Capital	\$249,121
Total Revenue Requirement	\$34,342,158
Plus: Utility Receipts Tax (1.4% of increase)	\$35,599
Annual Revenue Requirement	\$34,377,757

4. Amount of Stipulated Rate Increase and Approval of Changes to Rate Schedules.

The Parties agree that Petitioner's current rates and charges for electric service should be increased so as to produce additional operating revenues from retail sales of \$2,542,780 and total pro forma operating revenues of \$34,377,757, representing a 8.12% increase in rates and charges, as shown in Joint Settlement Exhibit 1.

5. Allocation of Agreed Upon Increase in Operating Revenues. The Parties acknowledge and agree that rates should be designed in order to allocate revenue requirements between and among the classes of Petitioner's customers in a fair and reasonable manner consistent with cost-causation principles. The Parties agree that the revenue requirements should be allocated to Auburn's customer classes as set forth in Joint Settlement Exhibit 2, attached hereto. The Parties agree that the cost allocation agreed to in this Settlement Agreement is consistent with the range of potential cost-of-service determinations that could be made by the Commission in the event of a contested hearing. No Party, by entering into this Settlement Agreement, has acquiesced in or waived any position with respect to the appropriate

methodology for determining cost-of-service or rate design.

6. Cost of Service and Rate Design in Next Rate Case. If Petitioner files a cost of service study ("COSS") in its next rate case, Petitioner agrees the COSS will be accompanied by testimony that describes in reasonable detail the cost causation theories and allocation methodologies associated with the COSS.

7. Petitioner's Proposed Two-Part Tracking Mechanism. The Parties agree the Commission should approve the two-part tracking mechanism described in the supplemental testimony of John R. Skomp and set forth in the revised versions of Appendices A and B filed in this Cause as Exhibits JRS-S-1 and JRS-S-2.

8. Residential Bill Impacts in Tracker Filings. Petitioner will include residential bill impacts in its tracker filings. The bill impacts will include a calculation for each residential rate class of the bill based on 1000 KWh at the currently approved rates (and current wholesale power cost factor) compared to the proposed rates based on the proposed wholesale power cost factor.

9. Smart Grid. The OUCC and Petitioner have engaged in communications regarding Auburn's significant efforts to implement smart grid. The OUCC has found these communications informative and desires to continue collaborative communications with Petitioner regarding smart grid and Petitioner agrees to continue such communications upon the OUCC's request.

10. Admission of Evidence. The Parties stipulate to the admission into evidence of their respective direct testimony and exhibits and the Parties' testimony in support of the Settlement Agreement. The Parties further agree to waive cross-examination of the other

Parties' witnesses. The Parties will jointly sponsor this Settlement Agreement and Joint Settlement Exhibits 1 and 2 at the September 24, 2014 evidentiary hearing.

11. Mutual Conditions on Settlement Agreement. The Parties agree for purposes of establishing new rates and charges for Petitioner that the terms and conditions set forth in this Settlement Agreement are supported by the evidence and based on the Parties' independent review of the evidence, represent a fair, reasonable and just resolution of all the issues in this Cause, subject to their incorporation in a Final Order without modification or further condition, which may be unacceptable to either party. If the Commission does not approve this Settlement Agreement in its entirety and incorporate it into a Final Order as provided above, it shall be null and void and deemed withdrawn, unless otherwise agreed to in writing by the Parties. The Parties represent that there are no other agreements in existence between them relating to the matters covered by this Settlement Agreement.

12. Non-Precedential. As a condition precedent to the Settlement Agreement, the Parties condition their agreement on the Commission providing assurance in the Final Order issued herein that it is not the Commission's intent to allow this Settlement Agreement or the Order approving it to be used as an admission or as a precedent against the signatories hereto except to the extent necessary to enforce the terms of the Settlement Agreement. The Parties agree that this Settlement Agreement shall not be construed nor 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 before any court of competent jurisdiction on these particular issues. This Settlement Agreement is solely the result of compromise in the settlement process and except as provided herein is without prejudice to and shall not constitute a waiver of

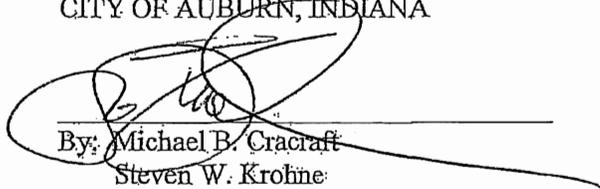
any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceedings and, failing approval by the Commission, shall not be admissible in any subsequent proceedings. With regard to future use, citation, or precedent of the Settlement Agreement, Commission approval of the terms of the Settlement should be construed in a manner consistent with the Commission's findings in *In Re. Richmond Power & Light*, Cause No. 40434, Order dated March 19, 1997.

13. Authority to Stipulate. The undersigned have represented and agreed that they are fully authorized to execute this Settlement Agreement on behalf of their designated clients who will be bound thereby.

Respectfully submitted,

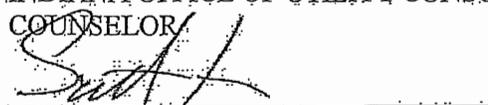
Dated: September 9, 2014

CITY OF AUBURN, INDIANA


By: Michael B. Cracraft
Steven W. Krohne
An Attorney for the City of Auburn

Dated: September 9, 2014

INDIANA OFFICE OF UTILITY CONSUMER
COUNSELOR


By: Scott Franson
Its Attorney

Dated: September 9, 2014

METAL TECHNOLOGIES, INC.



By: Timothy L. Stewart
Its Attorney

Auburn Municipal Electric Utility
Cause Number 44472

Comparison of Petitioner's and Settlement Agreement
Revenue Requirements

<u>Description:</u>	<u>Per Petitioner</u>	<u>Per Settlement</u>	<u>Settlement More (Less)</u>
Operations and Maintenance Expense	\$31,537,662	\$31,306,307	(\$231,355)
Taxes Other Than Income Taxes	738,758	738,758	(0)
Annual Capital Improvements	2,047,972	2,047,972	0
Working Capital Funding	263,581	249,121	(14,460)
Total Revenue Requirements	34,587,973	34,342,158	(245,815)
Less: Adjusted Operating Revenue	(31,834,977)	(31,834,977)	0
Increase In Net Operating Income	2,752,996	2,507,181	(245,815)
Divide: Revenue Conversion Factor	98.60%	98.60%	
Additional IURC Fee	39,089	35,599	(3,490)
Net Revenue Increase Required	\$2,792,085	\$2,542,780	(\$249,305)
Divide by Adjustable Operating Revenues:	31,311,821	31,311,821	0
Recommended Increase	8.92%	8.12%	-0.80%

