ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF EVANSVILLE, INDIANA, FOR AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES.	)	**CAUSE NO. 44760** **APPROVED:** OCT 05 2016

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Loraine L. Seyfried, Chief Administrative Law Judge

On March 9, 2016, the City of Evansville, Indiana ("Evansville" or "Petitioner") filed its Petition seeking authority to issue bonds, notes, or other obligations and to increase its rates and charges for water service and requesting approval of new schedules of water rates and charges. Evansville also filed its direct testimony and exhibits in support of its Petition.

Pursuant to Ind. Code § 8-1-2-61(b), the Indiana Utility Regulatory Commission ("Commission") conducted a public field hearing at Evansville North High School in Evansville, Indiana on May 25, 2016, at 6:00 p.m. for purposes of receiving oral and/or written comments from members of the public.

On July 13, 2016, the Indiana Office of Utility Consumer Counselor ("OUCC") filed its direct testimony and exhibits. Evansville filed its rebuttal testimony and exhibits on August 4, 2016.

On August 25, 2016, Petitioner and the OUCC ("Parties") filed a Stipulation and Settlement Agreement ("Settlement Agreement") along with testimony in support of the Settlement Agreement.

An evidentiary hearing was held on September 23, 2016, at 9:30 a.m., in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. The Settlement Agreement and the Parties' testimony and exhibits were admitted into the record without objection. No members of the general public appeared or sought to testify.

Based on the evidence presented and applicable law, the Commission finds:

1. Notice and Jurisdiction. Due, legal, and timely notice of the hearings conducted in this Cause was given as required by law. Evansville is a municipally owned utility as defined by Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1.5-3-8(f)(2), the Commission has jurisdiction over changes to Evansville's water utility rates and charges. In addition, Ind. Code § 8-1.5-2-19 requires approval from the Commission before Evansville may issue debt to fund improvements to the water utility when water utility assets or revenues are pledged as collateral for such debt, as Evansville has proposed here. Therefore, the Commission has jurisdiction over Evansville and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner owns and operates municipal waterworks facilities that serve approximately 60,000 customers in the incorporated City of Evansville, unincorporated areas of Vanderburgh County, and other areas outside of Vanderburgh County, Indiana. Additionally, Petitioner sells water at wholesale to certain other customers.

3. **Relief Requested.** Evansville requests authority to issue $40 million in new revenue bonds to fund capital improvements to its water system. Evansville also requests authority to increase its rates and charges on an across-the-board basis through a two-phase rate increase.

4. **Test Year.** The test year selected for determining Petitioner's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates is the twelve months ended September 30, 2015. With adjustments for changes that are fixed, known, and measurable, we find this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

5. **The Parties' Evidence.**

A. **Evansville's Case-in-Chief.**

1. **Patrick R. Keepes.** Petitioner's Water Superintendent, Mr. Keepes, described Evansville's operations and systems, which includes a 118-year-old water treatment plant on the Ohio River and 1,000 miles of water mains. It also has ten water storage facilities with a capacity of nearly 37 million gallons of water. Petitioner serves approximately 60,000 retail customers and provides water for fire protection to more than 6,000 hydrants.

Mr. Keepes stated that Evansville's capital improvement plan ("CIP") sets forth the capital projects and their costs that are anticipated over the next four years in the following categories: Mains, Vehicles, Equipment, and Treatment. Mains include replacements of aging infrastructure at a rate of 1.5% per year, relocation or right-of-way projects, and elimination of dead-end mains. Mr. Keepes stated that 60% of the Evansville system consists of 90-year-old cast iron mains and a replacement level of 1.5% per year is needed to bridge the gap between the current rate of infrastructure replacement and the ideal rate of replacement. The Vehicles category includes fleet vehicles and dump trucks. Equipment is spread over two categories and includes geographic information system, office equipment, and field equipment. The Treatment category refers to the Preliminary Engineering Report commissioned to study Evansville's treatment plant options, including land acquisition for a potential new treatment plant. Mr. Keepes noted that none of these projects is for an extension of Evansville's distribution system to provide service to new customers. He explained that the proposed costs are good faith estimates based on his experience in water utility operations and construction as well as vendor quotes and analyses.

Mr. Keepes testified that Evansville proposes to issue $40 million of waterworks district revenue bonds to finance the CIP, with any remaining CIP balance to be funded through revenues. He testified that Evansville is seeking approval for an overall rate increase of 48.7%, to occur in two phases. The first increase of 28.08% would commence as soon as administratively feasible upon Commission approval and last through the 2017 calendar year. The second phase would occur on January 1, 2018, at which point Petitioner's water rates would increase by another 16.13% above the rates at the end of 2017. Mr. Keepes testified that these rates contemplate payments made to Evansville in lieu of property taxes as well as an adjustment for a Tank Maintenance Program. That program, he testified, is based on a contractual arrangement Evansville is negotiating with a third party to implement a comprehensive management program for storage tanks, covering routine maintenance and major renovations. He provided an estimate of the annual fee under the proposed contract.

2. **Douglas L. Baldessari.** Mr. Baldessari, a Certified Public Accountant and Partner with H. J. Umbaugh & Associates, reviewed Petitioner's rate and financing needs and sponsored an Accounting Report containing Petitioner's pro forma financial information. The Accounting Report also contains an estimate of the costs and funding of the proposed CIP, which is estimated to be $108 million over a 4-year period. Mr. Baldessari testified that the CIP costs will be funded with a combination of $35.2 million of proceeds from the proposed bonds and $25.5 million from rate-funded projects from an annual CIP allowance. The remaining estimated $47 million of the planned projects in the CIP will be deferred until additional funding is available. He stated the annual CIP funding from rates and charges will be $4.5 million in year one of the rate phase-in period and $7 million for Phase 2 and thereafter. He noted the proposal to phase-in the increase is an attempt to minimize the financial burden on ratepayers while allowing Evansville to make needed improvements to its system. He testified that Evansville does not have any available funds to apply to reduce the CIP annual requirement.

Mr. Baldessari described the proposed bonds and explained why Evansville plans to issue them on the open market as opposed to the Indiana State Revolving Loan Fund Program. He stated that due to the different projects, land requirements, timing requirements, and other complexities, an open market bond issue is a better fit for funding the projects. In addition, it is likely that only a portion of the projects would be able to be funded with subsidized interest bond funds requiring multiple or complex bond issues. Mr. Baldessari stated the pro forma combined average annual debt service related to Evansville's outstanding waterworks district bonds plus the proposed bonds is $10.1 million for the five bond years ending January 1, 2023. Once the bonds are sold, the debt service will be adjusted to reflect actual interest rates for any material change once the proposed bonds are sold through a true-up process. He presented the amortization of the proposed bonds showing principal repayments paid annually over a 20-year period beginning January 1, 2019 and interest at assumed rates ranging from 1.10% to 4.12% to be paid semiannually beginning July 1, 2017.

Mr. Baldessari offered support for fifteen adjustments to Petitioner's annual cash operating expenses, including such expenses related to salaries and wages, employee benefits, periodic maintenance, and contractual services. He testified that operating expenses increased significantly in calendar year 2014 due to a high number of main breaks resulting from severe cold weather in the first quarter of 2014. He also indicated that management of the water utility has had to defer some necessary expenses and maintenance items in order to control expenses over the past few years. Mr. Baldessari also described the adjustments made to annual operating revenues, such as normalization of test year revenues and annual metered sales.

The Accounting Report also includes an annual working capital allowance based on the shortfall in available operating funds. In addition, Evansville proposes to continue the phasing out of the outside city rate differential for its fire protection charges, which began in its last rate case. Accordingly, the pro forma fire protection charges assume the second one-third of the territorial rate differential is phased out in this proceeding.

Mr. Baldessari stated that Evansville proposes a net annual revenue requirement for Phase 1 of $30,106,691 and $34,961,654 for Phase 2. In order to provide revenues to meet these requirements, Evansville proposes that water rates and charges be increased across-the-board by 28.08% for Phase 1 and an additional 16.13% for Phase 2 and thereafter.

B. OUCC's Case-in-Chief.

1. Charles E. Patrick. Mr. Patrick, a Utility Analyst for the OUCC's Water/Wastewater Division, addressed Evansville's revenue requirement, proposed adjustments to various items, and Evansville's general ledger system. Mr. Patrick testified that the OUCC's recommended cumulative two phase increase of 42.24%, compared to Petitioner's proposed 48.74%, is primarily due to its recommended increase to the customer growth adjustment, reduction in annual debt service, reductions to various operation and maintenance expenses and a reduction to the payment in lieu of taxes ("PILT"). Such adjustments result in the OUCC's recommended 22.10% and 16.49% rate increases for Phase 1 and Phase 2, respectively.

He explained that the OUCC opposes Petitioner's connection charge adjustment and presented his own calculation of that adjustment. He also presented his own calculation of the utility receipts tax, asserting that Evansville's calculation improperly exempted fire protection revenues from the calculation. He recommended that the reimbursement of sewer expenses be treated not as an offset to revenues but rather as a reduction to operations and maintenance expense. He also recommended a modification to the revenue adjustment for commercial customer growth, and the bad debt expense calculation that flows from that adjustment.

Mr. Patrick re-calculated periodic maintenance expense to reflect adjustments recommended by OUCC witness Seals and modified the adjustment to include additional amounts for water intake work for dredging that occurred during the test year. He also increased the adjustment for non-recurring expenses to include three additional non-recurring expense items and removed amounts related to items that he posited should have been capitalized but were expensed during the test year. Mr. Patrick reduced the adjustment to pro forma contractual services expense to remove an amount based on Evansville's estimated escalation of use of electronic payments once the credit card fees are assumed by Evansville. He asserted that Evansville did not provide sufficient evidence to support that portion of the adjustment. He also recommended Evansville update its rules and regulations to clarify that customers will no longer be charged a credit card fee when making payments to the utility.

Mr. Patrick also proposed a reduction to PILT for amounts related to construction outside Evansville's municipal boundaries. He further recommended the elimination of Evansville's proposed working capital allowance and a reduction in Evansville's debt service reserve requirement based on recommendations made by OUCC witness Kaufman.

Mr. Patrick recommended the Commission allow the one-third phase out of the difference in fire protection rates between inside and outside city customers as proposed by Petitioner. He also testified regarding Petitioner's accounting methods, and recommended that the Commission require Evansville to implement computer program modifications to convert its current fund accounts to a format that comports with the National Association of Regulatory Utility Commissioner ("NARUC") Uniform System of Accounts. Mr. Patrick also recommended the Commission require Evansville to remove an accrual for PILT from 2008 on Petitioner's balance sheet.

2. **Greg A. Foster**. Mr. Foster, a Utility Analyst II in the OUCC's Water/Wastewater Division, testified in support of the OUCC's adjustment to the pro forma salaries and wages expense proposed by Petitioner as well as other changes flowing from that adjustment. He recommended eliminating expenses related to four vacant and five new employee positions because Petitioner did not provide sufficient evidence that those positions would be filled during the adjustment period.

3. **Carl N. Seals**. Mr. Seals, a Utility Analyst for the Water/Wastewater Division, recommended approval of Petitioner's periodic maintenance program with certain adjustments. He recommended adjustments to the proposed maintenance intervals for three categories. First, Mr. Seals recommended that Petitioner adjust its proposed maintenance interval for filter media from six to ten years, for an expense adjustment of ($179,200). He stated that based upon Petitioner's historical replacement cycle, Petitioner's proposed six-year schedule appeared aggressive. He noted that Petitioner's average replacement time for its filter media is currently 22.9 years. He explained that Evansville's revenue requirement from its last rate case included funds for media replacement, but Petitioner did not follow the five-year replacement frequency it requested and the Commission approved. He noted Evansville has replaced only two filter media since the rate order was issued in February 2013. Mr. Seals also stated that Evansville provided no analyses of alternatives for replacement of the filter media and that an American Water Works Association publication suggests a ten to 20-year replacement of sand and anthracite in a typical dual-media filter.

With respect to traveling screen maintenance, Mr. Seals recommended a five-year interval, as opposed to a three-year interval, for an expense adjustment of ($46,296). He testified that the average time since the last traveling screen rebuild was approximately five years. And, finally, Mr. Seals recommended adjusting the interval for pump maintenance from three to four years for an expense adjustment of ($32,928). He testified that, based on Petitioner's discovery responses, a three-year maintenance interval appears too aggressive.

Mr. Seals also testified about Evansville's proposed CIP and method of financing. He recommended the Commission approve Petitioner's proposed CIP, which includes projects that are crucial to the utility's ongoing operations. However, he also recommended that Petitioner conduct a comprehensive evaluation of all available alternatives to constructing a new groundwater treatment plant and upon filing its next rate case, provide a cost-benefit analysis supporting its recommended approach regarding the treatment plant.

4. **Edward R. Kaufman.** Mr. Kaufman, Chief Technical Advisor with the OUCC's Water/Wastewater Division, addressed Evansville's proposed debt issuance. Mr. Kaufman stated that he disagreed with Petitioner's proposed annual debt service because Petitioner relied on interest rates that are higher than current interest rates to calculate its debt service requirements. To support the use of lower interest rates, Mr. Kaufman relied on the "The Municipal Market Monitor" publication dated May 9, 2016 and cited to a June 15, 2016 Federal Reserve press release indicating there would be only gradual increases in the federal funds rates. Noting that his proposed interest rates are not intended to be a cap, he recommended Petitioner be granted authority to issue debt at an interest rate of up to 4.5%.

Mr. Kaufman also raised concern that Petitioner's rates may be increased before its debt is issued, thus permitting Petitioner to collect funds without a corresponding expense. To alleviate this concern, Mr. Kaufman recommended that if Petitioner does not issue its debt within two months of the Commission's order or approval of a revised tariff under this Cause, then any funds collected in rates for its 2017 debt should be used to offset the amount Petitioner needs to borrow. He further testified that Petitioner's rates should be trued-up to reflect the actual cost of debt at the time of issuance and recommended that the Commission require Petitioner to file a report in this Cause within 30 days after closing on its long-term debt issuance. He also proposed a process for the resolution of any disputes that may arise concerning the calculation or result of any true-up.

Mr. Kaufman concluded by discussing Petitioner's Guaranteed Performance Contract with Johnson Controls, Inc. ("JCI") and stating that the OUCC should be permitted to review the annual reports JCI provides to Evansville. Mr. Kaufman stated that, due to the debt service expense and contract maintenance fees to be borne by ratepayers, such ratepayers and the OUCC have an interest in knowing to what extent the Contract has generated the savings it promised. In addition, he recommended that if JCI makes a payment to Evansville under the Contract with respect to revenue shortfalls, then the water utility's allocated portion of that payment should be used to offset Evansville's Phase 2 increase.

C. Evansville's Rebuttal Case.

1. **Patrick R. Keepes.** Mr. Keepes testified that he disagreed with Mr. Seals' recommended expense adjustments related to the filter media replacement and traveling screen maintenance intervals. Mr. Keepes stated that Mr. Seals' recommendations did not fully take into account changes in circumstances and the present condition of the particular plant in question. He testified that maintenance on these items has been deferred in the past in order to allow the utility to address other, high priority needs within the system. As a result, those maintenance needs are now more pressing. He testified that eight of the filters had not undergone media replacement for over 34 years. In addition, two of the three traveling screens were last rebuilt seven years ago. While he believes Evansville's proposed three-year interval for

pump maintenance is reasonable and justified, he stated he did not necessarily object to Mr. Seals' recommended maintenance interval of four years.

Mr. Keepes further testified that he agreed with Mr. Seals' recommendation that, in the event the $650,000 estimated non-construction costs for property acquisition is not needed to acquire property, such funds should be put towards other identified CIP projects. Mr. Keepes also agreed that Petitioner should analyze the costs and benefits of various options associated with replacing its existing treatment plant and present the analysis as part of its next rate case.

2. **Douglas L. Baldessari.** Mr. Baldessari testified that he agreed with some of Mr. Patrick's recommended adjustments, including reducing expenses for additional non-recurring items and expensed items that are capital in nature, elimination of the working capital allowance, and adjustments to contractual services to eliminate the portion of credit card fees related to the assumed increase of credit cards to pay bills. However, he disagreed with the OUCC's proposed commercial growth revenue adjustment. He stated that, contrary to Mr. Patrick's testimony, Evansville's reclassification of customers will not result in new customers and additional revenues. Mr. Baldessari also provided a "Cumulative Water Sold by Month" schedule to show that commercial billed usage was down on average 8% for the first six months of 2016.

Mr. Baldessari further testified that he did not agree with the OUCC's adjustments for the utilities receipt tax and pro forma salaries and wages expense for the proposed new positions. With respect to the utility receipts tax adjustment, he noted that Mr. Patrick incorrectly assumed that Evansville excludes fire protection from the calculation. With respect to the proposed new positions and related adjustments, Mr. Baldessari explained that Petitioner had originally waited to hire these employees in order to be financially prudent, but that it would begin hiring for these positions because they are necessary and integral to future utility operations. Mr. Baldessari stated Evansville accepts the OUCC's proposed adjustment for vacant positions.

Disagreeing with the OUCC's adjustment to periodic maintenance as it relates to filter media replacement and traveling screens maintenance, Mr. Baldessari reiterated Mr. Keepes' testimony that Evansville's proposed maintenance schedule is not aggressive because it has deferred maintenance in these categories for higher priority expenditures and such maintenance cannot be deferred any further. He stated that Evansville did not have adequate funds to maintain the filter media beds and traveling screens over the past couple of years due to decreased billed usage and revenues as well as increased expenditures for main repairs and replacements during the severe 2014 winter.

Mr. Baldessari also disagreed with Mr. Patrick's adjustments to PILT. He explained that the main difference between the OUCC's and Petitioner's calculation was Mr. Patrick's exclusion of the balance of available funds in the construction account as of September 30, 2015 totaling $14,718,110. He explained that such funds will likely be spent before the project expenditures from the proposed bonds and should be included in the PILT calculation resulting in an additional $164,265 in PILT expense.

With regard to Petitioner's proposed bond issuance, Mr. Baldessari disagreed with the schedule used by Mr. Kaufman in determining an interest rate because it does not reflect current market conditions. He recommended the assumed interest rates be those from Petitioner's recent bond sale which priced on July 14, 2016 plus 50 basis points. He reiterated that Evansville has proposed to file a true-up report after the bonds are issued, including an updated amortization schedule with the actual interest rates on the bonds, amount borrowed, and the resulting trued-up water rates and charges. Evansville will also true-up the bond sizing for any changes to the project costs resulting from the differential in the assumed interest rates and the final interest rates and underwriter's discount. Although he disagreed with Mr. Kaufman's recommendation that Evansville use any excess revenue generated from a delay in issuing the bonds to fund a portion of the debt service reserve requirement, he stated that Petitioner would to agree to use any excess revenue from a delay to fund a portion of the CIP projects. In addition, Evansville will attempt to issue the proposed bonds prior to year-end. Mr. Baldessari sponsored updated project cost and amortization schedules for the proposed bonds based on $39.94 million of project costs and the interest rates from Evansville's recent bond sale plus the 50 basis points interest rate increase assumption.

With respect to Mr. Kaufman's recommendations regarding the Guaranteed Performance Contract with JCI, Mr. Baldessari stated Evansville has no issue providing the GPC reports provided by JCI to the OUCC. However, he did oppose Mr. Kaufman's recommendation to reduce Phase 2 rates based upon payments from JCI due to any shortfall in revenues resulting from the GPC projects. He reasoned that if JCI is making a payment, that means pro forma revenues did not come in as planned and reducing Phase 2 rates would only lock in the shortfall in revenues.

Mr. Baldessari addressed Mr. Patrick's observations on Petitioner's books and records and his recommendation that Petitioner implement computer program modifications that allow conversion of its current fund accounts to a format that comports with the NARUC Uniform System of Accounts. Mr. Baldessari explained that the format of the water and sewer utilities' books and records is a reflection of the requirement that they report to the Evansville Controller's Office which maintains a cash basis fund account system for all city departments as required by the Indiana State Board of Accounts. He further testified that Petitioner could not commit to implementing the computer program Mr. Patrick recommends, but could consider evaluating the feasibility of a computer program solution. If the conversion were found to be feasible and there were no operational issues or concerns, Mr. Baldessari suggested Evansville could include the cost of conversion programming in the next rate case once expenses are fixed and known.

6. <u>Settlement Agreement</u>. Subsequent to Petitioner's filing of its rebuttal, the Parties entered into a settlement. In support of the Settlement Agreement, Petitioner offered the testimony of Mr. Baldessari and the OUCC offered the testimony of Mr. Patrick. Both witnesses opined that the Settlement Agreement is in the public interest. Mr. Patrick noted that the settlement resolves all issues in the case and avoids the expense of litigation. Mr. Baldessari testified that the proposed level of revenues are reasonable and necessary to meet the pro forma revenue requirements of the utility and will allow Evansville to meet its reasonably expected costs of operation and to provide safe and reliable water service to its customers.

The Settlement Agreement and supporting testimony generally provides the following:

A. Base Rate Relief. The Parties agree that Evansville should be authorized to increase its rates and charges in Phase 1 to increase annual revenues by $6,128,868 and in Phase 2 to increase annual revenues by $4,781,170 to produce total net operating revenues of $34,414,609.

In stipulating to Evansville's revenue requirement, the Parties accepted Evansville's position, as supported by the rebuttal testimony filed by Mr. Baldessari, with respect to salaries and wages and the related payroll tax and employee retirement expense associated with new positions, commercial customer growth revenue, PILT (including Evansville's continued inclusion on its balance sheet of the accrual for PILT from Cause No. 43190), and the utility receipts tax calculation. The stipulated revenue requirement also reflects the Parties' agreement to accept the OUCC's position on salaries and wages and the related payroll tax and employee retirement expense associated with vacant positions, the elimination of an annual working capital allowance, the four-year maintenance interval for high and low service pumps, the reduction to expenses for additional non-recurring items and capitalization of certain additional items, the elimination of a portion of credit card fees related to assumptions of increased usage of credit cards to pay bills, the test year connection fee revenues, and other contested revenue requirement items, including additional test year periodic maintenance expenditures of $2,385.

The Parties stipulate that no reduction will be made to Evansville's Phase 2 rates in the event of a payment by JCI under the Guaranteed Performance Contract for revenue shortfalls. In addition, the Parties agree that Evansville will not be required to implement computer program modifications as recommended in the OUCC's case-in-chief. The Parties also negotiated specific terms for handling debt service and periodic maintenance, which is discussed in greater detail below.

The Parties' agreement with respect to Evansville's annual revenue requirements in Phase 1 and Phase 2 is summarized below:

Annual Revenue Requirements	**Phase 1**	**Phase 2**
Total Operation & Maintenance Expense	$21,576,446	$21,644,914
PILT	1,677,172	1,873,632
Debt Service	8,000,768	10,016,038
Debt Service Reserve – Outstanding Bonds	92,664	92,664
Allowance for Capital Improvements	4,500,000	7,000,000
Total Revenue Requirements	35,847,050	40,627,248
Less: Interest Income	(92,456)	(92,456)
Less: Sewer Portion of General Expenses	(5,329,807)	(5,329,807)
Less: Other Operating Income	(418,538)	(418,538)
Less: Other Non-operating Income	(371,838)	(371,838)
Net Revenue Requirements	$29,634,411	$34,414,609

Annual Revenues	**Phase 1**	**Phase 2**
Residential	$11,245,860	$14,177,656
Industrial	3,202,448	4,037,326
Commercial	4,863,908	6,131,929
Public Authority	791,350	997,655
Fire Protection	3,153,733	3,975,911
Forfeited Discounts	155,641	196,217
Additional Revenues from Guaranteed Performance Contract	92,603	116,745
Total Operating Revenues	$23,505,543	$29,633,439
Approved Increase	$6,128,868	$4,781,170
Approved Increase Percentage	26.07%	16.13%
Average Monthly Residential Bill (current $19.58 assuming 5,000 gallons per month)	$24.67	$28.66

B. <u>Debt Service.</u>

1. **<u>Bond Issuance</u>.** The Parties agree that Evansville should be authorized to issue revenue bonds in principle amount not to exceed $39.94 million at assumed interest rates equal to the coupon rates on Evansville's recent sewer bond issue plus 50 basis points as reflected in the amortization schedule included in Appendix A to the Settlement Agreement. The Parties further agree that no cap should be placed on the interest rate for the bonds because Evansville is already statutorily required to issue the bonds at the lowest net interest rate that is bid in accordance with Ind. Code § 5-1-11-3(c). In support of the Settlement Agreement, Mr. Baldessari stated that in the event of a delay in the proposed bond issuance of more than two months after the Order, any funding due to revenue generated between that time and the time the bonds are issued will be used to fund a portion of the projects that Evansville was not able to include in this case. In other words, there will be no reduction to the debt service reserve for those funds. However, Mr. Baldessari noted that it is Evansville's intention to issue the bonds before the end of calendar year 2016, which would virtually eliminate any delay.

2. **<u>True-Up</u>.** With respect to the true-up process for the bond issuance, the Parties accepted the OUCC's recommended process which provides that the OUCC (in the case of a decrease) and Evansville (in the case of an increase) will have the exclusive right to determine whether such decrease or increase, respectively, should be considered immaterial and without any true-up necessary; provided, however, that the Commission retains the right, in its sole discretion, to order Evansville to file revised rates regardless of the Parties' determination that the change be considered immaterial. The Settlement Agreement provides that any objection to Petitioner's true-up filing shall be submitted to the Commission within 15 business days of that filing.

C. **Periodic Maintenance.** With respect to periodic maintenance, the Parties negotiated the amounts to be included in the revenue requirement for periodic maintenance. For filter media, the annual amount to be included is $448,072, which is equivalent to the periodic maintenance expense associated with replacement of the eight oldest filter media over two years. For traveling bar screens, the Parties agreed on a four-year replacement cycle, resulting in associated annual periodic maintenance expense of $86,806. As noted in Mr. Baldessari's rebuttal testimony, Evansville accepted a four-year maintenance interval for high and low service pumps for an adjustment of $134,500 per year to periodic maintenance expense. As a condition to the Parties' agreement on these items of periodic maintenance expense, the Settlement Agreement provides that Evansville must set up a restricted account for funds to be used on the filter media, traveling bar screens, and high and low service pump maintenance. The funds in the restricted account must be spent on periodic maintenance items; however, if necessary, Evansville is not prohibited from using those funds to make necessary debt service payments. Mr. Baldessari testified that this provides added assurance that those specific maintenance items are addressed. The Settlement Agreement also requires Evansville to report to the OUCC within ten business days of using monies from the restricted fund toward debt service payments.

D. **Water Treatment Plant.** The Settlement Agreement sets forth Evansville's commitment to update (not less than annually) the OUCC through a meeting or correspondence as to the planning and design of its treatment plant project. Evansville also agreed to meet with the OUCC to discuss the update upon request by the OUCC. In addition, Evansville committed to meeting with the OUCC within 30 days of making its selection among the various options under consideration to address Evansville's needs with respect to its water treatment facility and source of supply to discuss its selection and provide all studies conducted which led to Evansville's decision.

E. **Miscellaneous Non-Revenue Requirement Items.** Finally, the Settlement Agreement sets forth the negotiated settlement with respect to certain items unrelated to Evansville's revenue requirement in this case. Specifically:

- Evansville agreed to provide the OUCC a copy of the annual report from JCI under the Guaranteed Performance Contract.
- The accrual for PILT from Cause No. 43190 will remain on Evansville's balance sheet for so long as is directed by the Indiana State Board of Accounts.
- At such time as Evansville assumes the First Billing credit card service charges, Evansville agrees to update its rules and regulations to clarify that customers will no longer be charged a credit card fee when making payments to the utility.[1]

7. Commission Findings and Discussion.

A. **Settlement Agreement.** Settlements presented to the Commission are not ordinary contracts between private parties. *U. S. Gypsum, Inc. v. Ind. Gas Co.*, 735 N.E.2d 790,

[1] Although we lack jurisdiction over a municipal utility's rules and regulations and need not specifically approve this provision, we agree it is reasonable for Evansville to keep its rules and regulations up to date.

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.

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *U. S. Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co. of Ind., Inc.*, 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 Ind. Code ch. 8-1-2 and that such agreement serves the public interest.

Upon review of the evidence of record as set forth above, we find that the Settlement Agreement is the product of arms-length negotiations between the Parties and that the terms of the Settlement Agreement are supported by the evidence and represent a reasonable resolution of the issues presented to the Commission. We further find that the terms of the Settlement Agreement are reasonable and the approval of the Settlement Agreement is in the public interest. Therefore, the Commission finds the Settlement Agreement should be approved.

Although the majority of the public comments received by the OUCC generally opposed any increase in the rates and charges for water service, we note that the largest drivers of Petitioner's request are the increase in operation and maintenance expense and capital expenditures needed to address aging infrastructure and the annual debt service needed to finance those expenditures. Evansville explained its need to complete the projects included in its CIP and the OUCC concurred that such projects are crucial to the utility's ongoing operations.

Accordingly, based on the evidence presented and the Parties' Settlement Agreement, the Commission specifically finds:

1. <u>Petitioner's Authorized Rates</u>. The evidence demonstrates that Petitioner's current rates and charges are insufficient to satisfy its annual pro forma net revenue requirement. The Commission further finds that Petitioner shall be authorized to increase its rates and charges for water service, across-the-board, to produce annual revenues of $34,414,609, representing a 46.41% increase. The Commission further finds that Petitioner shall be authorized to implement said rate increase in two phases. Petitioner may implement the Phase 1 increase of its current rates by 26.07%, in order to increase annual operating revenues by $6,128,868, upon issuance of this Order and approval of Petitioner's revised tariff. Petitioner may implement the Phase 2 increase of 16.13%, in order to increase annual operating revenues by $4,781,170, on or about January 1, 2018.

2. **Petitioner's Financing.**

a. **Borrowing Authority.** The Commission finds Petitioner's request to issue long-term debt of $39.94 million to fund capital improvements under Ind. Code ch. 5-1-11 is reasonable and necessary in order for Petitioner to provide adequate and efficient water service. The bonds will be issued at interest rates resulting from the competitive bond sale which will be the lowest overall net interest cost in accordance with Ind. Code § 5-1-11-3(c).

b. **True-Up.** Consistent with the Settlement Agreement, we find that Petitioner shall file a true-up report with the Commission under this Cause and serve a copy thereof on the parties of record within 30 days of closing on the issuance of long-term debt. The true-up report shall include an updated amortization schedule with the actual interest rates on the bonds, amount borrowed, and the resulting trued-up water rates and charges. If pursuant to the terms of the Settlement Agreement, the appropriate party determines that the increase or decrease would be immaterial, the Parties shall so inform the Commission as part of the true-up report or through a subsequent filing. If no such determination is made, or if otherwise ordered by the Commission after the true-up report is filed, Petitioner should file an amended tariff.

B. **Use of Settlement Agreement.** The Parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent provided therein or to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 WL 34880849, at *7-8 (IURC 3/19/97).

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

1. The Settlement Agreement, a copy of which is attached to this Order, is approved.

2. Petitioner is authorized to increase its rates and charges for water service, across-the-board, in two Phases with the increase for Phase 1 constituting a 26.07% increase in order to increase annual operating revenues by $6,128,868 and Phase 2 constituting a 16.13% increase in order to increase annual operating revenues by $4,781,170 to produce total annual operating revenues of $34,414,609.

3. Petitioner is granted a Certificate of Authority to issue additional long-term debt not to exceed $39.94 million as approved herein. This Order shall be the sole evidence of Petitioner's certificate.

4. For Phase 1, Petitioner shall file under this Cause new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth above. Petitioner's new schedules of rates and charge shall be effective upon filing and after approval by the Water/Wastewater Division.

5. Prior to placing into effect the Phase 2 rates and charges approved herein, Petitioner shall file under this Cause new schedules of rates and charges with the

Water/Wastewater Division of the Commission. Petitioner's Phase 2 schedules of rates and charges shall be effective upon filing and after approval by the Water/Wastewater Division. Said Phase 2 rates and charges will not be approved earlier than January 1, 2018, and upon such approval, Petitioner's Phase 2 tariff schedules shall replace Petitioner's Phase 1 schedules of rates and charges.

6. Petitioner shall file a true-up report as provided in Finding Paragraph 7.

7. In accordance with Ind. Code § 8-1-2-70, the Petitioner shall pay within 20 days from the date of this Order, and prior to placing into effect the rates approved herein, the following itemized charges, as well as any additional charges which were or may be incurred in connection with this Cause.

Commission Charges	$ 1,007.54
OUCC Charges	$ 29,365.84
Legal Advertising Charges	$ 240.67
Total:	$30,614.05

Petitioner shall pay all charges into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission.

8. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee equal to $0.25 for each $100 of water utility revenue bonds issued, to the Secretary of the Commission, within 30 days of the receipt of the financing proceeds authorized herein.

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

FREEMAN, HUSTON, WEBER, AND ZIEGNER CONCUR; STEPHAN ABSENT:

APPROVED: OCT 0 5 2016

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

Mary M. Becerra

Mary M. Becerra
Secretary of the Commission

FILED
August 25, 2016
INDIANA UTILITY
REGULATORY COMMISSION

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF EVANSVILLE, INDIANA, FOR AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES.	)))))))))	**CAUSE NO. 44760**

STIPULATION AND SETTLEMENT AGREEMENT

The City of Evansville, Indiana ("Petitioner" or "Evansville") and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively, the "Settling Parties"), by their respective counsel, respectfully request the Indiana Utility Regulatory Commission ("Commission") to approve this Stipulation and Settlement Agreement ("Stipulation"). The Settling Parties agree that the terms and conditions set forth below represent a fair and reasonable resolution of the issues described herein, subject to incorporation into a final order of the Commission in substantially the form submitted jointly by the Settling Parties, which order approves this Stipulation without any modification or condition that is not acceptable to the Settling Parties. The Settling Parties also agree that in order to avoid the delay in bond issuance that would result from being required to update to year-end financial information, and consequently the added expense and potential delay of critical capital projects, it is important that Petitioner be able to proceed with closing on its proposed bond issue before the end of calendar year 2016. Accordingly, Petitioner urges the Commission to proceed to issue an order approving this Stipulation as soon as possible and before October 15, 2016.

In this proceeding, this Stipulation follows the parties' prefiled testimony and attachments, including rebuttal. Those filings framed the issues discussed by the Settling Parties, and formed the basis for the Settling Parties to reach agreement on the terms reflected in this Stipulation. A basic authorized to issue revenue bonds in principle amount not to exceed $39.94 million. The revenue requirement shall be calculated based upon a bond allowance of $39.94 million and an interest rate that is equal to the coupon rate on Evansville's recent sewer bond issue plus 50 basis points (See amortization schedule included at p. 9 of Appendix A). The bonds will be sold pursuant to Ind. Code ch. 5-1-11 and, therefore, will be issued at the lowest net interest rate that is bid in accordance with Ind. Code § 5-1-11-3(c). The Settling Parties agree to the OUCC's proposed process with respect to Petitioner's true-up with respect to its debt issuance, as follows:

a. Subject to paragraph 4.c below, the OUCC shall have the sole right to determine whether a decrease in rates should be considered immaterial and the true-up not be implemented.

b. Subject to paragraph 4.c below, Evansville shall have the sole right to determine whether an increase in rates should be considered immaterial and the true-up not be implemented.

c. The Settling Parties acknowledge the Commission may override either determination made pursuant to paragraphs 4.a and 4.b above, and thus order Evansville to file revised rates based on the true-up.

d. Any objection to Petitioner's true up filing shall be submitted to the Commission within 15 business days of said filing.

5. **Working Capital**. No annual working capital allowance shall be included in Evansville's Phase I or Phase II rates in this Cause.

6. **Periodic Maintenance – Filter Media**. Evansville's revenue requirement shall include the periodic maintenance expense per year of $448,072 for replacement of the eight (8) oldest filter media over two years. Evansville shall establish a restricted account for funds

the specific fund from which the money was spent, and (iii) any plans to replenish the restricted fund, including, if necessary plans to file a rate case.

10. **Payment in lieu of taxes (PILT).** The dollar amount of PILT as set forth in Evansville's case-in-chief shall be included in the calculation of Evansville's revenue requirement.

11. **Non-recurring and capital items**. Expenses included in the revenue requirement shall be reduced for additional non-recurring items of $6,425 and to capitalize additional items totaling $43,285 that were treated in Evansville's case-in-chief as expense.

12. **Credit card service fee**. Evansville shall eliminate $32,698 of credit card fees included in contractual service expense related to assumed increased usage of credit cards to pay bills.

13. **New service connections**. Test year connection fee revenues shall be adjusted based on the OUCC's case-in-chief position.

14. **Utility Receipts Tax (URT) Calculation.** Evansville's URT shall be calculated as set forth in Evansville's case-in-chief, which includes fire protection revenues but excludes wholesale and other exempt customer revenues.

15. **Other Revenue Requirement Items.** All other contested revenue requirement items, including additional test year periodic maintenance expenditures of $2,385, shall reflect the adjustments set forth in the OUCC's case-in-chief.

16. **Computer Accounting System**. Evansville will not be required to implement the computer program modifications recommended in the OUCC's case-in-chief.

17. **True-Up for Guaranteed Performance Contract Payments**. Evansville's Phase II rates shall not be reduced to reflect any payment by Johnson Controls, Inc. under the Guaranteed Performance Contract for revenue shortfalls.

withdrawn upon notice in writing by any party within 10 days after the date of the final order stating that a modification made by the Commission is unacceptable to the Settling Party.

The Stipulation is the result of compromise in the settlement process and neither the making of the Stipulation nor any of its provisions shall constitute an admission or waiver by any Settling Party in any other proceeding, now or in the future. The Stipulation shall not be used as precedent in any other current or future proceeding or for any other purpose except to the extent provided for herein or to the extent necessary to implement or enforce its terms.

The evidence to be submitted in support of the Stipulation, together with evidence already admitted, constitutes substantial evidence sufficient to support the Stipulation and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Stipulation.

The communications and discussions and materials produced and exchanged during the negotiation of the Stipulation relate to offers of settlement and shall be privileged and confidential.

The undersigned represent and agree that they are fully authorized to execute the Stipulation on behalf of the designated party who will be bound thereby.

The Settling Parties will either support or not oppose on rehearing, reconsideration and/or appeal, an IURC Order accepting and approving this Stipulation in accordance with its terms.

(signature page follows)

IURC Cause No. 44760

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

PRO FORMA ANNUAL REVENUE REQUIREMENTS AND ANNUAL REVENUES

Settlement

	Petitioner (Original Filing)		OUCC (7/13/2016)		Settlement	
Annual Revenue Requirements:	Phase I	Phase II	Phase I	Phase II	Phase I	Phase II
Operation and maintenance expense	$21,864,174	$21,961,437	$20,979,860	$21,070,174	$21,486,394	$21,576,446
Additional Indiana utility receipts tax	74,860	53,660	69,552	63,371	69,511	52,872
Additional bad debt expense	22,403	19,099	20,762	18,917	20,541	15,596
Total Operating Expenses	21,961,437	22,034,196	21,070,174	21,152,462	21,576,446	21,644,914
Payment in lieu of taxes	1,677,172	1,873,632	1,586,542	1,783,897	1,677,172	1,873,632
Working Capital	139,786	139,786	-	-	-	-
Debt service	8,013,360	10,099,104	7,772,527	9,777,770	8,000,768	10,016,038
Debt service reserve - outstanding	92,664	92,664	92,664	92,664	92,664	92,664
Allowance for capital improvements	4,500,000	7,000,000	4,500,000	7,000,000	4,500,000	7,000,000
Total Revenue Requirements	36,384,419	41,239,382	35,021,907	39,806,793	35,847,050	40,627,248
Less interest income	(92,456)	(92,456)	(92,456)	(92,456)	(92,456)	(92,456)
Less sewer portion of general expenses	(5,383,103)	(5,383,103)	(5,124,668)	(5,124,668)	(5,329,807)	(5,329,807)
Less other operating income	(418,538)	(418,538)	(418,538)	(418,538)	(418,538)	(418,538)
Less other nonoperating income	(383,631)	(383,631)	(371,838)	(371,838)	(371,838)	(371,838)
Net Revenue Requirements	$30,106,691	$34,961,654	$29,014,407	$33,799,293	$29,634,411	$34,414,609
Annual Revenues:						
Residential	$11,245,860	$14,404,073	$11,245,860	$13,731,180	$11,245,860	$14,177,656
Industrial	3,202,448	4,101,804	3,202,448	3,910,184	3,202,448	4,037,326
Commercial	4,863,908	6,229,859	5,121,215	6,252,996	4,863,908	6,131,929
Public Authority	791,350	1,013,588	791,350	966,237	791,350	997,655
Fire protection	3,153,733	4,039,408	3,153,733	3,850,704	3,153,733	3,975,911
Forfeited discounts	155,641	199,350	155,641	190,037	155,641	196,217
Additional revenues from GPC	92,603	118,609	92,603	113,069	92,603	116,745
Total Annual Operating Revenues	$23,505,543	$30,106,691	$23,762,850	$29,014,407	$23,505,543	$29,633,439
Additional Revenues Required	$6,601,148	$4,854,963	$5,251,557	$4,784,886	$6,128,868	$4,781,170
Percentage Increase Requested	28.08%	16.13%	22.10%	16.49%	26.07%	16.13%
Aggregate Percentage Increase Requested		48.74%		42.24%		46.41%
Average Monthly Residential Bill (Presently $19.58 assuming 5,000 gallons per month)	$25.06	$29.11	$23.91	$27.85	$24.67	$28.66

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

IURC Cause No. 44760

(Cont'd)
Settlement

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES
(Explanation of References)

	Petitioner (Original Filing)	OUCC (7/13/2016)	Increase/ (Decrease)	Ref.	Settlement
(1) Variances in pro forma operation and maintenance adjustments and Petitioner's rebuttal as follows:					
Description					
Test Year Operating Expenses	$19,037,783	$19,037,783			$19,037,783
Adjustments:					
Salaries and wages*	782,914	303,026	($479,888)	REB.	594,469
FICA*	65,265	28,554	(36,711)	PET.	50,849
PERF*	133,286	65,142	(68,144)	PET.	106,527
Health and life insurance	147,357	147,436	79	PET.	147,357
Periodic maintenance **	1,363,918	1,103,109	(260,809)	PET.	1,299,670
Non-recurring items	(62,413)	(112,123)	(49,710)	OUCC	(112,123)
Contractual Services	747,113	714,285	(32,828)	REB.	714,285
Utility Receipts tax	32,560	74,780	42,220	REB.	31,226
Bad debt expense	3,566	5,043	1,477	PET.	3,566
Other expenses - no variance	(387,175)	(387,175)	-	PET.	(387,215)
Total	$21,864,174	$20,979,860	($884,314)		$21,486,394

* Rebuttal assumes new employees are kept in pro forma expenses and vacant positions are removed.
** Rebuttal assumes petitioner's periodic maintenance plus the adjustments for high and low service pumps maintenance proposed by the OUCC.

	Petitioner	OUCC	Increase/ (Decrease)	Ref.	Settlement
(2) Variance in pro forma additional Indiana Utility Receipts tax adjustment and Petitioner's rebuttal as follows:					
Additional URT from rate increase	$92,347			REB.	$85,744
Less estimated increase in URT for wholesale and exempt revenues (a)	(17,487)			REB.	(16,233)
Total Revenue Increase - Phase I (OUCC)		$5,251,557			
Times effective URT rate		1.32440% *			
Adjustment	$74,860	$69,552	($5,308)	REB.	$69,511
(a) Exempt sales:					
~~Normalized wholesale (Sales for resale) revenues~~	~~$1,182,917~~		~~($1,182,917)~~	~~PET.~~	~~$1,182,917~~
Normalized exempt accounts (including public authority) revenues *	3,202,562		(3,202,562)	PET.	3,202,562
Total	$4,385,479	$0	($4,385,479)	PET.	$4,385,479

* The OUCC used a gross revenue conversion factor of 101.749848% to determine percentage of revenues to subject URT.

	Petitioner	OUCC	Increase/ (Decrease)	Ref.	Settlement
(3) Variance in pro forma additional for Bad Debt Expense and Petitioner's rebuttal as follows:					
Increase (Decrease) Residential and Commercial Water Sales (a)	$4,524,164	$3,617,124		REB.	$4,199,817
Times: Bad Debt % for the Test Year (b)	0.574%	0.574%		PET.	0.5740%
Sub-total	25,969	20,762		REB.	24,107
Less test year adjustment (b)	(3,566)	-		PET.	(3,566)
Adjustment	$22,403	$20,762	($1,641)	REB.	$20,541
(a) Calculated as follows:					
Normalized test year residential revenues	$11,245,860	$11,245,860		PET.	$11,245,860
Normalized test year commercial revenues	4,863,908	5,121,215		PET.	4,863,908
Sub-total	16,109,768	16,367,075			16,109,768
Times: Phase I percentage increase	28.08%	22.10%		REB.	26.07%
Adjustment	$4,524,164	$3,617,124 *	($907,040)	REB.	$4,199,817

(b) Recalculated based on test year residential and commercial revenues divided by bad debt expense.

* The OUCC used a gross revenue conversion factor of 101.749848% to determine percentage of revenues subject to bad debt expense times bad debt factor.

(Continued on next page)

IURC Cause No. 44760

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

Settlement

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES
See Explanation of References
(Phase II)

	Petitioner (Original Filing)	OUCC (7/13/2016)	Increase/ (Decrease)	Ref.	Settlement
Annual Revenue Requirements:					
Operation and maintenance expense	$21,961,437	$21,070,174	($891,263)	(1)	$21,576,446
Additional Indiana utility receipts tax	53,660	63,371	9,711	(2)	52,872
Additional bad debt expense	19,099	18,917	(182)	(3)	15,596
Total Operating Expenses	22,034,196	21,152,462	(881,734)		21,644,914
Payment in lieu of taxes	1,873,632	1,783,897	(89,735)	(4)	1,873,632
Working Capital	139,786	-	(139,786)	OUCC	-
Debt service	10,099,104	9,777,770	(321,334)	(5)	10,016,038
Debt service reserve - outstanding	92,664	92,664		PET.	92,664
Allowance for capital improvements	7,000,000	7,000,000		PET.	7,000,000
Total Revenue Requirements	41,239,382	39,806,793	(1,432,589)		40,627,248
Less interest income	(92,456)	(92,456)		REB.	(92,456)
Less sewer portion of general expenses	(5,383,103)	(5,124,668)	258,435	REB.	(5,329,807)
Less other operating income	(418,538)	(418,538)		PET.	(418,538)
Less other nonoperating income	(383,631)	(371,838)	11,793	OUCC	(371,838)
Net Revenue Requirements	$34,961,654	$33,799,293	($1,162,361)		$34,414,609
Annual Revenues:					
Residential	$14,404,073	$13,731,180	($672,893)	(6)	$14,177,656
Industrial	4,101,804	3,910,184	(191,620)	(6)	4,037,326
Commercial	6,229,859	6,252,996	23,137	(6)	6,131,929
Public Authority	1,013,588	966,237	(47,351)	(6)	997,655
Fire protection	4,039,408	3,850,704	(188,704)	(6)	3,975,911
Forfeited discounts	199,350	190,037	(9,313)	(6)	196,217
Additional revenues from GPC	118,609	113,069	(5,540)	(6)	116,745
Total Annual Operating Revenues	$30,106,691	$29,014,407	($1,092,284)		$29,633,439
Additional Revenues Required	$4,854,963	$4,784,886	($70,077)		$4,781,170
Percentage Increase Requested	16.13%	16.49%			16.13%
Average Monthly Residential Bill (Assuming 5,000 gallons per month)	$29.11	$27.85			$28.66

(Continued on next page)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

IURC Cause No. 44760

(Cont'd)
Settlement

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES
(Explanation of References)

	Petitioner (Original Filing)	OUCC (7/13/2016)	Increase/ (Decrease)	Ref.	Settlement	
(5) Variance in pro forma debt service and Petitioner's rebuttal as follows:						
2008 Bonds	$2,267,099	$2,267,099		PET.	$2,267,099	
2013A Bonds	1,359,495	1,359,495		PET.	1,359,495	
2013C Bonds	1,000,481	1,000,481		PET.	1,000,481	
2014B Bonds	2,584,900	2,584,900		PET.	2,584,900	
Proposed Bonds	2,887,129	2,565,795	($321,334)	REB.	2,804,063	**
Totals	$10,099,104	$9,777,770	($321,334)		$10,016,038	

** See page 9.

(6) Variance in pro forma operating revenues and Petitioner's rebuttal as follows:	Phase I 28.08% Increase	Phase I 22.10% Increase			Phase I 26.07% Increase
Residential	$3,158,213	$2,485,320	($672,893)	REB.	$2,931,796
Industrial	899,356	707,736	(191,620)	REB.	834,878
Commercial	1,365,951	1,131,781	(234,170)	REB.	1,268,021
Public authority	222,238	174,887	(47,351)	REB.	206,305
Fire protection	885,675	696,971	(188,704)	REB.	822,178
Forfeited discounts	43,709	34,396	(9,313)	REB.	40,576
Additional revenues from GPC	26,006	20,465	(5,541)	REB.	24,142
Totals	$6,601,148	$5,251,556	($1,349,592)		$6,127,896
Summary:					
Residential:					
Normalized test year revenues	$11,245,860	$11,245,860			$11,245,860
Phase I increase	3,158,213	2,485,320	($672,893)		2,931,796
Phase I Residential Revenues	$14,404,073	$13,731,180	($672,893)		$14,177,656
Industrial:					
Normalized test year revenues	$3,202,448	$3,202,448			$3,202,448
Phase I increase	899,356	707,736	($191,620)		834,878
Phase I Indust. Revenues	$4,101,804	$3,910,184	($191,620)		$4,037,326
Commercial:					
Normalized test year revenues	$4,863,908	$5,121,215	$257,307		$4,863,908
Phase I increase	1,365,951	1,131,781	(234,170)		1,268,021
Phase I Comm. Revenues	$6,229,859	$6,252,996	$23,137		$6,131,929
Public authority:					
Normalized test year revenues	$791,350	$791,350			$791,350
Phase I increase	222,238	174,887	($47,351)		206,305
Phase I Pub. Author. Revenues	$1,013,588	$966,237	($47,351)		$997,655
Fire protection:					
Normalized test year revenues	$3,153,733	$3,153,733			$3,153,733
Phase I increase	885,675	696,971	($188,704)		822,178
Phase I Fire Protection Revenues	$4,039,408	$3,850,704	($188,704)		$3,975,911
Forfeited discounts:					
Normalized test year revenues	$155,641	$155,641			$155,641
Phase I increase	43,709	34,396	($9,313)		40,576
Phase I Forfeited discounts	$199,350	$190,037	($9,313)		$196,217
Additional revenues from GPC:					
Normalized test year revenues	$92,603	$92,603			92,603
Phase I increase	26,006	20,466	($5,540)		$24,142
Phase I Addtl. Rev. from GPC:	$118,609	$113,069	($5,540)		$116,745

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

IURC Cause No. 44760 **Settlement**

SCHEDULE OF AMORTIZATION OF $39,940,000 PRINCIPAL AMOUNT OF PROPOSED WATERWORKS DISTRICT REVENUE BONDS, SERIES 2017A

Principal payable annually January 1st, beginning January 1, 2019.
Interest payable semi-annually January 1st and July 1st, beginning July 1, 2017.
Assumed interest rates as indicated.
Assumes bonds dated April 4, 2017.

Payment Date	Principal Balance	Principal	Assumed Interest Rates (1)	Debt Service Interest	Debt Service Total	Bond Year Total
	(In thousands)		(%)	(------In Dollars	------)	
07/01/17				$291,386.56	$291,386.56	
01/01/18	$39,940			602,868.75	602,868.75	$894,255.31
07/01/18				602,868.75	602,868.75	
01/01/19	39,940	$1,710	2.500	602,868.75	2,312,868.75	2,915,737.50
07/01/19				581,493.75	581,493.75	
01/01/20	38,230	1,670	2.500	581,493.75	2,251,493.75	2,832,987.50
07/01/20				560,618.75	560,618.75	
01/01/21	36,560	1,710	2.500	560,618.75	2,270,618.75	2,831,237.50
07/01/21				539,243.75	539,243.75	
01/01/22	34,850	1,665	2.500	539,243.75	2,204,243.75	2,743,487.50
07/01/22				518,431.25	518,431.25	
01/01/23	33,185	1,660	2.500	518,431.25	2,178,431.25	2,696,862.50
07/01/23				497,681.25	497,681.25	
01/01/24	31,525	1,700	2.500	497,681.25	2,197,681.25	2,695,362.50
07/01/24				476,431.25	476,431.25	
01/01/25	29,825	1,690	2.500	476,431.25	2,166,431.25	2,642,862.50
07/01/25				455,306.25	455,306.25	
01/01/26	28,135	1,555	2.500	455,306.25	2,010,306.25	2,465,612.50
07/01/26				435,868.75	435,868.75	
01/01/27	26,580	1,595	2.500	435,868.75	2,030,868.75	2,466,737.50
07/01/27				415,931.25	415,931.25	
01/01/28	24,985	1,560	2.625	415,931.25	1,975,931.25	2,391,862.50
07/01/28				395,456.25	395,456.25	
01/01/29	23,425	1,540	2.750	395,456.25	1,935,456.25	2,330,912.50
07/01/29				374,281.25	374,281.25	
01/01/30	21,885	1,530	2.875	374,281.25	1,904,281.25	2,278,562.50
07/01/30				352,287.50	352,287.50	
01/01/31	20,355	1,570	3.000	352,287.50	1,922,287.50	2,274,575.00
07/01/31				328,737.50	328,737.50	
01/01/32	18,785	1,460	3.500	328,737.50	1,788,737.50	2,117,475.00
07/01/32				303,187.50	303,187.50	
01/01/33	17,325	1,465	3.500	303,187.50	1,768,187.50	2,071,375.00
07/01/33				277,550.00	277,550.00	
01/01/34	15,860	1,470	3.500	277,550.00	1,747,550.00	2,025,100.00
07/01/34				251,825.00	251,825.00	
01/01/35	14,390	1,510	3.500	251,825.00	1,761,825.00	2,013,650.00
07/01/35				225,400.00	225,400.00	
01/01/36	12,880	3,110	3.500	225,400.00	3,335,400.00	3,560,800.00
07/01/36				170,975.00	170,975.00	
01/01/37	9,770	4,760	3.500	170,975.00	4,930,975.00	5,101,950.00
07/01/37				87,675.00	87,675.00	
01/01/38	5,010	5,010	3.500	87,675.00	5,097,675.00	5,185,350.00
Totals		$39,940		$16,596,755.31	$56,536,755.31	$56,536,755.31

Average annual debt service for the 5 bond years ending January 1, 2023. $2,804,062.50

(1) Based on the winning bid received on July 14, 2016 for the sale of the Sewage Works Revenue Bonds, Series 2016A plus 50 basis points. The Sewage Works and the Waterworks District currently both have a A+ stable outlook bond rating from S&P Global Ratings.

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

IURC Casue No. 44760 **Settlement**

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

(A) Monthly Service Charge

Meter Size:	Present (1)	Proposed Phase I (2)	Proposed Phase II (3)
5/8 - 3/4 inch meter	$4.38	$5.52	$6.41
1 inch meter	5.22	6.58	7.64
1 1/4 inch meter	5.76	7.26	8.43
1 1/2 inch meter	6.16	7.77	9.02
2 inch meter	8.43	10.63	12.34
3 inch meter	25.60	32.27	37.48
4 inch meter	31.94	40.27	46.77
6 inch meter	46.75	58.94	68.45
8 inch meter	63.68	80.28	93.23
10 inch meter	82.69	104.25	121.07

(B) Volume Charge (In addition to monthly service charge)

Consumption per Month	Present (1)	Proposed Phase I (2)	Proposed Phase II (3)
First 20,000 gallons	$3.04	$3.83	$4.45
Next 280,000 gallons	2.38	3.00	3.48
Next 700,000 gallons	2.15	2.71	3.15
Next 2,000,000 gallons	1.89	2.38	2.76
Over 3,000,000 gallons	1.43	1.80	2.09

(C) Fire Protection Service

Monthly Surcharge for fire protection

Inside City Limits: (4)	Present (1)	Proposed Phase I (2)	Proposed Phase II (3)
5/8 inch meter	$2.43	$3.14	$3.65
1 inch meter	4.33	6.74	7.83
1 1/2 inch meter	7.05	12.46	14.47
2 inch meter	11.32	19.96	23.18
3 inch meter	30.14	43.65	50.69
4 inch meter	43.27	67.35	78.21
6 inch meter	75.30	127.61	148.19

(1) Present rates and charges approved by IURC pursuant to Cause No. 44137 on February 13, 2013 and became effective on January 1, 2015.

(2) Phase I rates and charges represent a 26.07% across-the-board rate increase in present rate and charges effective upon Commission approval.

(3) Phase II rates and charges represent a 16.13% across-the-board rate increase in Phase I rates and charges effective on January 1, 2018.

(4) The current fire protection charges have been adjusted to accommodate a 1/3rd phase-out of the territorial surcharge.

(Continued on next page)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

IURC Casue No. 44760 **Settlement** **(Cont'd)**

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

			Proposed	
		Present (1)	Phase I (2)	Phase II (3)
(G) Developer Installed Service Charge				
3/4	inch meter	$200.00	$200.00	$200.00
1	inch meter	230.00	230.00	230.00
(H) Temporary Fire Hydrant Meter Fee				
1	inch	$500.00	$500.00	$500.00
2	inch and larger	1,000.00	1,000.00	1,000.00
(I) Bad Check Charge		$23.00	$23.00	$23.00
(J) Reconnection Charge		$45.00	$45.00	$45.00
(K) Collection of Deferred Payment Charge		10% of 1st $3.00: 3% of remainder of bill.		
(L) Meter Test Fee (Customer Request)		$60.00	$60.00	$60.00
(M) Meter Re-Read Fee (Customer Request)		$34.00	$34.00	$34.00
(N) Damaged Meter Fee (Customer Negligence)				
3/4	inch meter	$215.00	$215.00	$215.00
Larger than 3/4 inch		Actual cost	Actual cost	Actual cost
(O) Damaged SmartPoint Fee (Customer Negligence)		$160.00	$160.00	$160.00
(P) Service Fee (Customer Request)		$50.00	$50.00	$50.00