

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF WATER SERVICE COMPANY OF)
INDIANA FOR AUTHORITY TO INCREASE ITS)
WATER AND SEWER RATES AND CHARGES)
AND FOR APPROVAL OF A NEW SCHEDULE)
OF RATES AND CHARGES APPLICABLE)
THERE TO)

CAUSE NO. 44104

PREFILED TESTIMONY

OF

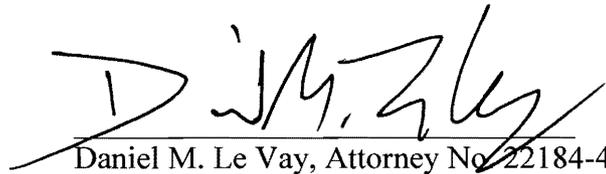
EDWARD R. KAUFMAN – PUBLIC’S EXHIBIT #4

ON BEHALF OF

THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

MAY 23, 2012

Respectfully submitted,



Daniel M. Le Vay, Attorney No. 22184-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing testimony has been served upon the following parties of record in the captioned proceeding by electronic service, on May 23, 2012.

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TESTIMONY OF OUCC WITNESS EDWARD R. KAUFMAN, CRRA
CAUSE NO. 44104
WATER SERVICE COMPANY OF INDIANA

I. INTRODUCTION

1 **Q: Please state your name and business address.**

2 A: My name is Edward R. Kaufman, and my business address is PNC, 115 West
3 Washington Street, Suite 1500 South, Indianapolis, Indiana 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC")
6 as a Senior Analyst.

7 **Q: Please describe your educational background and experience.**

8 A: I graduated from Bentley College in Boston, Massachusetts with a Bachelor
9 degree in Economics/Finance and an Associate degree in Accounting. Before
10 attending graduate school, I worked as an escheatable property accountant at State
11 Street Bank and Trust Company in Boston, Massachusetts. I was awarded a
12 graduate fellowship to attend Purdue University where I earned a Masters of
13 Science degree in Management with a finance concentration.

14 I was hired as a Utility Analyst in the Economics and Finance Division of
15 the OUCC in October 1990. My primary areas of responsibility have been in
16 utility finance, utility cost of capital and regulatory policy. I was promoted to
17 Principal Utility Analyst in August 1993 and to Assistant Chief of Economics and
18 Finance in July 1994. As part of an agency-wide reorganization in July 1999, my
19 position was reclassified as the Lead Financial Analyst within the

1 Rates/Water/Sewer Division. In October, 2005 I was promoted to Assistant
2 Director of the Water/Wastewater Division. I have participated in numerous
3 conferences and seminars regarding utility regulation and financial issues. I have
4 been awarded the professional designation of Certified Rate of Return Analyst
5 (“CRRA”). This designation is awarded based upon experience and the
6 successful completion of a written examination.

7 **Q: What is the purpose of your testimony?**

8 A: My testimony responds to Mr. Neyzelman’s testimony that the Commission
9 should authorize a 10.44% cost of equity for Water Service Company of Indiana
10 (“WSCI”, “Petitioner”, or “the Utility”). My analysis supports a range of
11 estimated cost of equity for Petitioner of 9.0% to 9.6%. I estimate that
12 Petitioner’s authorized cost of equity for ratemaking purposes should be 9.25%.
13 My testimony also discusses the significant economic impact of Petitioner’s
14 proposed rate increase and that Petitioner’s proposed rate increase may cause rate
15 shock.

16 **Q: Have you previously testified before the Indiana Utility Regulatory**
17 **Commission (“Commission”)?**

18 A: Yes. I have testified before the Commission in a number of different cases and
19 issues. I have testified in water, wastewater, natural gas, telecommunication and
20 electric utility cases. While my primary areas of responsibility have been in cost
21 of equity, utility financing, fair value, utility valuation and regulatory policy, I
22 have also provided testimony on trackers, guaranteed performance contracts,
23 declining consumption adjustments and other various issues.

1 **Q: Please describe the review and analysis you conducted to prepare your**
2 **testimony.**

3 A: I read the Petition and testimony filed in this Cause. I reviewed my testimony
4 from Twin Lakes Utilities, Inc., Cause No. 43957 (Petitioner's parent company
5 Utilities, Inc., owns both Twin Lakes Utilities, Inc., and Water Service Company
6 of Indiana). I also prepared discovery and reviewed Petitioner's responses. I
7 attended the Commission's Public Field Hearing held on May 2, 2012 in De
8 Motte, IN. Finally, I met with other members of the case team to discuss and
9 evaluate issues in this cause.

10 **Q: Please describe the schedules and attachments included with your testimony.**

11 A: My testimony includes one schedule and two attachments:

12 ERK Schedule 1 contains historical interest rates on US Treasury Securities from
13 January 2010 through the beginning of May 2012.

14 ERK Attachment 1 is copy of page 13 from Mr. Neyzelman's testimony.

15 ERK Attachment 2 is a copy of Petitioner's responses to OUCC data request set
16 5, question 1 from the Indiana Water Service, Inc. ("IWSI") rate case, Cause No.
17 44097.

18 ERK Attachment 3 contains letters from James E. Rose (Lake Holiday
19 Enterprises, Inc., and Benjamin B. Gehrmann (Autumn Hills Health and Rehab
20 Center).

II. PETITIONER'S PROPOSED COST OF EQUITY

21 **Q: What cost of equity does Petitioner propose in this Cause?**

22 A: Petitioner's witness Mr. Neyzelman proposes a cost of equity of 10.44%.

23 **Q: Did Mr. Neyzelman perform a complete cost of equity study?**

24 A: No. Mr. Neyzelman averaged the authorized costs of equity of seventeen (17)
25 sister companies of WSCI that received rate orders by state commissions during

1 2010 and early 2011 (Page 13 of Mr. Neyzelman's testimony is included as ERK
2 Attachment 1.).

3 **Q: Do you agree with Petitioner's proposed cost of equity?**

4 A: No. While I agree with Petitioner's decision to "avoid" the cost of hiring and
5 paying for a cost of equity witness¹, its proposed cost of equity is unreasonably
6 high and exceeds current investor expectations. Additionally, I disagree with the
7 direct application of cost of equity determinations from other states without
8 demonstrating that the utilities are reasonably comparable to Petitioner.

9 **Q: Please describe in greater detail the concerns you have with Mr. Neyzelman's**
10 **analysis.**

11 A: Mr. Neyzelman's list includes the cost of equity granted to Utilities, Inc.
12 subsidiary, Sky Ranch Water Service Corp., ("Sky Ranch") effective October 20,
13 2010. Sky Ranch may have unusual risk characteristics and may not be
14 comparable to Petitioner. In Sky Ranch's rate case, it requested a cost of equity
15 of 14.74%, which is more than 200 basis points greater than any other requested
16 cost of equity for a Utilities, Inc., subsidiary included in Petitioner's analysis.
17 Such a high proposed cost of equity indicates that Sky Ranch has unusual
18 characteristics and is riskier than Utilities, Inc.'s other subsidiaries including
19 WSCI. Excluding Sky Ranch from Petitioner's original analysis reduces the
20 average cost of equity for these utilities to 10.37%.

¹ On page 12 of his direct testimony, Mr. Neyzelman asserts that that Petitioner has not incurred the costs of hiring a return on equity expert. However, Petitioner's proposed rate case expense includes \$4,500 for a consultant. This consultant works for AUS and provided rate of return services.

1 Mr. Neyzelman's analysis does not include decisions issued after February
2 1, 2011. In response to OUCC data request Q 5-1 (asked in cause No. 44097
3 IWSI), Petitioner updated the list of sister company authorized cost of equities.
4 Petitioner's response includes all of the original findings, plus four additional
5 costs of equity findings that were granted to subsidiaries of Utilities, Inc. from
6 February 10, 2011 through December 15, 2011 (ERK Attachment 2). The
7 updated list of equity findings has an average cost of equity of 10.45%.

8 Although Mr. Neyzelman provided a revised analysis, it is still outdated
9 and does not reflect current capital costs. Interest rates have declined
10 dramatically over the past six months (See ERK Schedule 1). Even the most
11 recent final orders will likely be based on financial data prior to the recent decline
12 in interest rates. Investor expectations today are different than they were during
13 the time period covered by Mr. Neyzelman's analysis.

14 Finally, the direct use of prior commission orders may cause problems of
15 circularity. If all commissions exclusively relied on the results of prior
16 commission orders, then the proposed estimated cost of equity ceases to be a
17 market based estimated cost of equity.

III. OUCC'S PROPOSED COST OF EQUITY

18 **Q: Have you completed a detailed cost of equity analysis in this cause?**

19 **A:** No. As stated above, I accept Petitioner's proposal to avoid the expense of a full
20 cost of equity analysis and have not completed one myself.

1 **Q: Have you recently completed a thorough cost of equity analysis for the water**
2 **industry?**

3 A: Yes. On October 5, 2011, I filed testimony for the OUCC in the Indiana
4 American Company, Inc. rate case, Cause No. 44022. In that case my analysis
5 produced a range of cost of equity for the water industry of 7.71% to 9.45%. But,
6 I gave the most weight to methodologies that were most consistent with past
7 Commission orders. These methodologies produced a range of estimates of
8 7.71% to 8.44%. I then concluded that Indiana American's risk was similar to the
9 water industry, and I estimated a cost of equity for Indiana American Water
10 Company of 8.6%.

11 **Q: Does your analysis in the Indiana American Water rate case provide**
12 **meaningful insight to estimate cost of equity in this case?**

13 A: Yes. If I had performed a thorough cost of equity analysis in this case, it would
14 be similar to the one I completed in the Indiana American rate case.

15 **Q: How would an analysis in this case be different than the one you completed**
16 **in the Indiana American rate case?**

17 A: In that case, I concluded Indiana American's risk was similar to the risk of the
18 overall water industry. I also pointed out that Indiana American was larger than
19 several of the companies in my water company proxy group. In this case, both
20 Petitioner and even its parent company are smaller than most of the companies in
21 the water industry proxy group I used to estimate cost of equity in the Indiana
22 American rate case. Due to its smaller size, I would recognize Petitioner's
23 specific risk by making a company specific risk adjustment. I have made similar
24 adjustments in prior cases that involved a small utility such as I did in the last

1 Twin Lakes Utilities, Inc. rate case (Cause No. 43128), where cost of equity was
2 contested.

3 Also, at the time I filed my testimony in the Indiana American rate case,
4 interest rates had started to decline. But because my analysis used average
5 interest rates, my analysis did not fully reflect this decline. The 3-month and 6-
6 month average interest rates I used in my testimony for the Indiana American rate
7 case were well above the spot interest rates current at that time. Interest rates
8 have remained at the lower level, and if I had prepared a thorough cost of equity
9 analysis in this case, my proposed cost of equity would reflect the decline in
10 interest rates. A review of ERK Schedule 1, shows a sharp decline in interest
11 rates in August - September and reflects that interest rates have remained
12 relatively stable since September. Thus, applying all other inputs I used in the
13 Indiana-American rate case, the decline in interest rates would indicate a lower
14 estimated cost of equity.

15 **Q: Has the Commission issued any orders during the last 12-15 months that it**
16 **may consider useful when determining Petitioner's authorized cost of equity**
17 **in this case?**

18 A: Yes. On February 22, 2012 the Commission authorized Twin Lakes Utilities, Inc.
19 (Cause No. 43957) a cost of equity of 9.5%.² The Commission also authorized a
20 9.6% cost of equity to Utility Center, Inc. D/B/A Aqua Indiana, Inc., in Cause No.
21 43874, in an order dated April 13, 2011. In both cases the Commission expressed
22 concern about the Utility's obligation to provide adequate service. (The service

² Both Twin Lakes Utilities, Inc. and Water Service Company of Indiana, are owned by the same parent company, Utilities, Inc.

1 concerns expressed in those orders may not be present in this case, which could
2 arguably have affected the COE determinations.) However, capital costs have
3 declined since I provided testimony in both of those cases, and lower capital costs
4 should lead to a lower authorized cost of equity (holding all other factors
5 constant).

6 **Q: How did you estimate Petitioner's cost of equity in this cause?**

7 A: Initially, I used my estimated cost of equity from the Indiana American rate case
8 to establish the low end (8.6%) of my range of estimated cost of equity. I then
9 used Petitioner's analysis (removing Sky Ranch) to determine the high end
10 (10.4% rounded) of my range of estimated cost of equity. However, considering
11 current market conditions and Petitioner's size, I believe that the low end of my
12 range is unreasonably low and the high end is unreasonably high.

13 Because Petitioner is smaller than Indiana American Water Company, it is
14 appropriate to recognize Petitioner's smaller size and increased risk relative to the
15 proxy group. I added a company specific risk adjustment of 40 basis points to my
16 estimated cost of equity in the Indiana American Water Company rate case.

17 **Q: Why do you use a company specific risk adjustment of 40 basis points in this**
18 **Cause?**

19 A: In Twin Lakes' Cause No. 43128 (A subsidiary of Utilities, Inc.) Petitioner's cost
20 of equity witness Ms. Pauline Ahern recommended company specific risk
21 adjustment of 40 basis points. While I have not completed an independent
22 analysis for Petitioner, I believe that 40 basis points is a reasonable specific risk
23 adjustment. This increases the low end of my estimated range to 9.0%.

1 **Q: Why might a 40 basis point company specific risk adjustment be overstated?**

2 A: At the time Ms. Ahern filed her testimony Twin Lakes had a common equity ratio
3 of only 41.89% and a long term debt ratio of 58.11%. In this case WSCI has an
4 equity ratio of 50.31% and a long term debt ratio of 49.69%. Petitioner's higher
5 equity ratio would indicate a lower financial risk and subsequently a smaller
6 company specific risk adjustment for Petitioner than for Twin Lakes. Also,
7 because Petitioner is owned by a large multi-state utility holding company
8 (Utilities, Inc.), which is held by an even larger multi-national company (Corix)³,
9 which in turn is owned by an even larger multi-national company (British
10 Columbia Investment Management Corporation (bcIMC)⁴ my proposed small
11 company adjustment may be overstated.

12 For the high end of my range of estimated cost of equity, I relied on the
13 Commission's determination in the Utility Center, Inc. rate case (Cause No.
14 43874, order issued on April 13, 2011). While Petitioner may not have the same

³ On February 20, 2012, Corix announced that Corix Utilities (a Corix Company) will acquire Utilities, Inc. from Highstar Capital. According to their web site <http://www.corix.com/about/default.aspx> Corix describes itself as follows: Corix delivers safe, cost-effective and sustainable water, wastewater and energy utility infrastructure solutions to communities across North America. As an integrated provider of essential utility infrastructure, we can fulfill virtually any utility need, from supplying products to financing, designing, building and managing complete utility systems. This unique, integrated approach enables us to deliver our products and services with exceptional accountability, stability and risk-management to our clients, while allowing them to save time and money.

⁴ According to their web site <http://www.bcinc.com/> bcIMC describes itself as follows: The British Columbia Investment Management Corporation (bcIMC) is an independent investment management corporation that manages a globally diversified investment portfolio of \$86.9 billion as at March 31, 2011. Based in Victoria, British Columbia and supported by industry-leading expertise, bcIMC invests in all major asset classes including infrastructure and other strategic investments. bcIMC's clients include public sector pension plans, public bodies, publicly administered trust funds, and government operating funds. As one of the largest institutional investors in Canada, bcIMC offers our clients a wide range of investment services and options.

1 quality service concerns expressed by the Commission in the Utility Center, Inc.
2 order, capital costs have declined since the order was issued.

3 To determine my precise estimate of Petitioner's cost of equity, I also
4 considered other recent OUCC cost of equity estimates provided to the
5 Commission. For example, in Utility Center, Inc.'s recent rate case (Cause No.
6 43874), the OUCC recommended a cost of equity of 9.2%, which included a 20
7 basis point small company specific risk adjustment -- as recommended by
8 Petitioner's witness Ms. Ahern and accepted by OUCC witness Korlon Kilpatrick.
9 Also, OUCC witness Bradley Lorton recommended a 9.0% cost of equity in
10 Indiana Utilities Corporation (filed February 7, 2012), Cause No. 44062 and
11 Midwest Natural Gas Corporation, (filed March 8th, 2012), Cause No. 44063.

12 **Q: What is your estimate of Petitioner's cost of equity?**

13 A: Based on the analysis above, I believe a cost of equity range of 9.00% to 9.60% is
14 reasonable for Petitioner. My estimated cost of equity for Petitioner is 9.25%.

IV. RATE SHOCK

15 **Q: Would Petitioner's proposed rate increase, if approved, create Rate-Shock?**

16 A: Yes. Rate-Shock can be defined as follows: The presumed psychological and
17 economic effects on customers of a sudden and drastic utility rate hike. Rate
18 shock is compounded when it is experienced by those who can least afford the
19 increase in rates. Petitioner proposes to increase the average monthly sewer rates
20 for customers in the Island Grove mobile home park by 383.19% (\$76.04 per
21 month or \$912.48 per year). Commercial sewer customers could see increases of
22 369.78% to 554.79%. A Commercial customer with a 5/8" connection using

1 10,420 gallons per month would see their sewer rates increased from \$51.14 per
2 month to \$259.95 per month. And the Lake Holiday Campground could see an
3 increase of 310.31%. It is foreseeable that increases of this magnitude would
4 have a “shocking” effect on Petitioner’s customers.

5 **Q: Is there anything the Commission could do to lessen the effect of rate shock**
6 **in this case?**

7 A: The best way to reduce rate shock is to reduce the amount of the rate increase.
8 The proposed increase could also be phased-in over more than one year. The
9 phased in rate increase could still produce rates that may ultimately be
10 unaffordable, but at least ratepayers will not experience such a dramatic rate
11 increase all at once.

V. ECONOMIC IMPACT OF PETITIONER’S PROPOSED RATE INCREASE

12 **Q: Beyond your concerns regarding Rate-Shock are you concerned about the**
13 **impact that Petitioner’s proposed rate increase would have on WSCI’s**
14 **customers, businesses and the community at large?**

15 A: Yes. The impact of WSCI’s proposed rate increase goes beyond the distress it
16 will have on the individual ratepayers. Petitioner’s proposed rate increase could
17 distress the community and ultimately harm Petitioner.

18 This portion of my testimony does not focus on the residential customers
19 who, are being asked to take on a very large increase in wastewater rates. Instead
20 it focuses on how Petitioner’s proposed increase affects Petitioner’s largest
21 commercial customers. The field hearing included oral and written testimony
22 from Benjamin B. Gehrman (Autumn Hills Health and Rehab Center) and James
23 E. Rose (Lake Holiday Enterprises, Inc.). Both Mr. Gerhmann and Mr. Rose

1 asserted that WSCI's proposed rate increase is so large that their companies may
2 cease to exist. The loss of either or both of these businesses would have a large
3 and far reaching negative impact on the entire community. Both are relatively
4 large employers. The loss of jobs would be felt throughout the community.
5 Moreover, the Campground brings in thousands of visitors during the summer
6 months that patronize local businesses. Thus, local businesses would see a
7 decline in revenues while their water and wastewater expenses are increasing.

8 **Q: How would the loss of these customers affect future utility rates?**

9 A: The businesses discussed above are two of Petitioner's largest customers. If
10 either or both these businesses cease to exist and are not replaced by other
11 businesses, WSCI would need to further increase its rates to make up for the lost
12 revenues. Under Petitioner's proposed rates, the campground makes up
13 approximately 23% of WSCI's total sewer revenues. Residential customers could
14 potentially see an additional increase of approximately \$28.00 per month if the
15 campground was no longer a WSCI customer.⁵

16 According to Mr. Gehrman, under Petitioner's proposed rate increase
17 Autumn Hills would see an increase of approximately 253% or \$7,800 per month
18 (\$93,600 per year). If a 253% increase equates to a \$7,800 per month increase,
19 then their current rates should be approximately \$3,080 per month or \$36,960 per
20 year ($\$3,080 * 2.53 = \$7,792$). Thus, Autumn Hill's contribution to total rates
21 (under Petitioner's proposed increase) would be approximately \$130,560 per year.
22 Petitioner's proposed annual revenue requirements (both water and sewer) are

⁵ This calculation assumes no reduction in operating expenses or decrease in rate base.

1 approximately \$702,500. Thus, Autumn Hills would contribute approximately
2 18.5% to Petitioner's proposed revenue requirements. For residential customers
3 using 3,000 gallons per month Petitioner proposes monthly rates of \$51.64 per
4 month water and \$81.56 per month sewer (a combined rate of \$133.20 per
5 month). Assuming no decreases in expenses or rate base, to replace the lost
6 revenues from Autumn Hills, Petitioner would need to increase residential rates
7 by approximately \$24.60 per month (combined water and sewer).

VI. CONCLUSION

8 **Q: Please summarize your recommendations.**

9 A: First I recommend the Commission authorize a cost of equity of 9.25%. Next, I
10 recommend that Petitioner phase in its increase as proposed by OUCC witness
11 Margaret Stull.

12 **Q: Does this conclude your testimony?**

13 A: Yes.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Edward Kaufman

Edward R. Kaufman
Indiana Office of Utility Consumer Counselor

5-23-2012

Date

Cause No. 44104
Water Service Company of Indiana, Inc.

YIELDS ON U.S. TREASURY SECURITIES

	<u>1 Year</u> <u>T-NOTE</u>	<u>5 Year</u> <u>T-NOTE</u>	<u>10 Year</u> <u>T-NOTE</u>	<u>30 Year</u> <u>T-BOND</u>
6-Jan-10	0.36%	2.59%	3.82%	4.69%
3-Feb-10	0.31%	2.40%	3.71%	4.64%
3-Mar-10	0.30%	2.27%	3.62%	4.59%
6-Apr-10	0.45%	2.60%	3.85%	4.74%
4-May-10	0.38%	2.29%	3.54%	4.39%
2-Jun-10	3.20%	2.13%	3.34%	4.24%
7-Jul-10	0.29%	1.78%	2.98%	3.96%
4-Aug-10	0.25%	1.61%	2.95%	4.08%
1-Sep-10	0.23%	1.39%	2.57%	3.65%
5-Oct-10	0.22%	1.16%	2.40%	3.68%
3-Nov-10	0.20%	1.11%	2.57%	4.04%
8-Dec-10	0.27%	1.88%	3.27%	4.46%
5-Jan-11	0.28%	2.14%	3.47%	4.54%
2-Feb-11	0.26%	2.09%	3.48%	4.62%
2-Mar-11	0.23%	2.17%	3.47%	4.56%
6-Apr-11	0.28%	2.31%	3.55%	4.60%
4-May-11	0.18%	1.94%	3.22%	4.32%
1-Jun-11	0.15%	1.59%	2.94%	4.14%
6-Jul-11	0.17%	1.66%	3.11%	4.36%
3-Aug-11	0.14%	1.26%	2.62%	3.90%
31-Aug-11	0.10%	0.96%	2.22%	3.60%
5-Oct-11	0.09%	0.95%	1.89%	2.85%
2-Nov-11	0.10%	0.88%	1.99%	3.01%
7-Dec-11	0.09%	0.89%	2.03%	3.06%
4-Jan-12	0.10%	0.88%	1.98%	3.03%
1-Feb-12	0.12%	0.72%	1.83%	2.99%
7-Mar-12	0.17%	0.85%	1.98%	3.12%
4-Apr-12	0.19%	1.04%	2.23%	3.36%
2-May-12	0.18%	0.82%	1.93%	3.12%

Beginning of month Value Line Report available at the time I prepared my testimony in Indiana American's rate case

3-Month Average	0.18%	0.90%	2.05%	3.20%
6-Month Average	0.14%	0.87%	2.00%	3.11%
Spot yields - May 4, 2012		0.78%	1.89%	3.07%

Interest rates obtained from Value Line Selections and Opinions
Spot yields taken from CNN.com

Company	State	Docket	Requested	Granted	Effective Date
Transylvania Utilities Inc.	NC	W-1012, SUB 12	10.45%	10.45%	1/15/2010
Utilities Inc. of Central Nevada	NV	09-12017	11.65%	11.50%	7/16/2010
Utilities Inc. of Longwood	FL	090381-SU	11.13%	11.13%	7/26/2010
Sanlando Utilities Corp.	FL	090402-WS	11.24%	11.17%	8/9/2010
Utilities Inc. of Pennbrooke	FL	090392-WS	11.13%	11.13%	8/10/2010
Tega Cay Water Service Inc.	SC	2009-473-WS	11.70%	9.57%	8/16/2010
Apple Canyon Utility Company	IL	09-0548	11.70%	9.82%	9/9/2010
Lake Wildwood Utilities Corp.	IL	09-0549	11.70%	9.82%	9/9/2010
Massanutten Public Service Corp.	VA	09-0548	11.95%	10.40%	10/18/2010
Sky Ranch Water Service Corp.	NV	10-03032	14.74%	11.63%	10/20/2010
Bradfield Farms Water Company	NC	W-1044 Sub 15	10.45%	10.25%	11/16/2010
Utilities Inc. of Florida	FL	090462-WS	11.17%	10.69%	11/17/2010
Carolina Trace Utilities Inc.	NC	W-1013 Sub 9	10.45%	10.25%	11/24/2010
Whispering Hills Water Company	IL	10-0110	11.70%	9.82%	12/10/2010
Galena Territory Utilities Inc.	IL	10-0280	11.70%	9.82%	12/30/2010
Utilities Inc. of Louisiana	LA	U-31159	12.55%	10.25%	1/26/2011
Northern Hills Water & Sewer Company	IL	10-0298	11.70%	9.82%	2/1/2011
			Average	10.44%	

1

2 Q33. PLEASE PROVIDE THE CALCULATION USED TO DERIVE THE
 3 RESULTING 8.53% RATE OF RETURN.

4 A33. The following table sets forth the derivation of the 8.53% rate of return, based upon the
 5 Company's recommended cost of equity of 10.44%:

	Ratio	Cost	Weighted Cost
Long-Term Debt	49.69%	6.60%	3.28%
Common Equity	50.31%	10.44%	5.25%
	100.00%		8.53%

6

7 X. RATE DESIGN

8

9 Q34. WHAT ARE WSCI CUSTOMERS' CURRENT RATES?

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

DATA REQUEST

INDIANA WATER SERVICE, INC.

CAUSE NO. 44097

OUCC Data Request Set No. 5

Date: February 20, 2012

Q 5-1: In response to OUCC data request question 1-15 Petitioner provided the attached chart (OUCC DR 1-15 IWSI ROE 2011.06.30 update 2011.11.08). Please update (in Excel) the attached chart for Utility Inc. orders issued after March 3, 2011.

Response: Please see the attached file.

Company	State	Docket	Requested	Granted	Effective Date	Test Year	Customers
Transylvania Utilities Inc.	NC	W-1012, SUB 12	10.45%	10.45%	1/15/2010	12/31/2008	3,464
Utilities Inc. of Central Nevada	NV	09-12017	11.65%	11.50%	7/16/2010	6/30/2009	11,080
Utilities Inc. of Longwood	FL	090381-SU	11.13%	11.13%	7/26/2010	12/31/2008	1,745
Santando Utilities Corp.	FL	090402-WS	11.24%	11.17%	6/9/2010	12/31/2008	20,959
Utilities Inc. of Pennbrooke	FL	090392-WS	11.13%	11.13%	8/10/2010	12/31/2008	2,712
Tega Cay Water Service Inc.	SC	2009-473-WS	11.70%	9.57%	8/16/2010	12/31/2008	3,415
Apple Canyon Utility Company	IL	09-0548	11.70%	9.82%	9/9/2010	12/31/2008	2,677
Lake Wildwood Utilities Corp.	IL	09-0549	11.70%	9.82%	9/9/2010	12/31/2008	1,420
Massanutten Public Service Corp.	VA	09-0548	11.95%	10.40%	10/18/2010	12/31/2008	5,346
Sky Ranch Water Service Corp.	NV	10-03032	14.74%	11.63%	10/20/2010	9/30/2009	585
Bradfield Farms Water Company	NC	W-1044 Sub 15	10.45%	10.25%	11/16/2010	9/30/2009	2,353
Utilities Inc. of Florida	FL	090462-WS	11.17%	10.69%	11/17/2010	12/31/2008	9,582
Carolina Trace Utilities Inc.	NC	W-1013 Sub 9	10.45%	10.25%	11/24/2010	9/30/2009	2,976
Whispering Hills Water Company	IL	10-0110	11.70%	9.82%	12/10/2010	12/31/2008	2,333
Galena Territory Utilities Inc.	IL	10-0280	11.70%	9.82%	12/30/2010	12/31/2008	3,035
Utilities Inc. of Louisiana	LA	U-31159	12.55%	10.25%	1/26/2011	12/31/2008	10,593
Northern Hills Water & Sewer Company	IL	10-0298	11.70%	9.82%	2/1/2011	12/31/2008	355
Carolina Water Service of NC	NC	W-354, Sub 324	10.80%	10.20%	2/10/2011	12/31/2009	36,337
Lake Placid Utilities Inc.	FL	090531-WS	11.13%	10.64%	2/23/2011	12/31/2008	314
CWS Systems	NC	W-778, Sub 88	11.00%	10.20%	8/3/2011	6/30/2010	10,714
Lake Utility Services Inc.	FL	100426-WS	11.67%	10.80%	12/15/2011	6/30/2010	12,221
			Average	10.45%			

Lake Holiday Enterprises, Inc.
11780 W ST RD #10
Demotte, IN 46310
Fax 219/345-3156

Faxed to 317/232-5923

March 9, 2012

Mr. Scott Bell
Office of Utility Consumer Council (OUCC)
Suite 1500 South
115 W Washington St
Indianapolis, IN 46204

RE: Water Service Co. of Indiana, Rate Increase (WSCI)

Dear Mr. Bell,

I am writing to request a public field hearing regarding a proposed rate increase by WSCI.

Though I have not received ANY notification, I have heard that the rate increase could be as much as 400%. This is outrageous!!!

Lake Holiday Camp-Resort is a seasonal campground with 670 sites. Our original agreement with WSCI is that they only charge for sewer service from approximately April 15th through October 31st - the six or seven months that the campground is open.

The sewer fee is 670 sites x \$5.00 x 6 or 7 months which amounts to approximately \$3350.00 per month. This is right and fair.

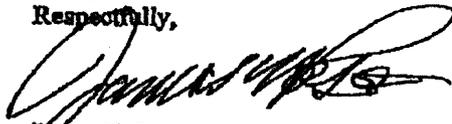
Twenty dollars x 670 equals \$13,400.00 x 6 or 7 months equals \$87,000.00 and this does not include our comfort stations, restaurant and activity center. This is not right and fair!!!

If this proposed rate hike is approved, Lake Holiday Campground which has been in operation since 1969 will cease to exist. The 40 to 50 seasonal summer jobs will also cease to exist.

With the economy being what it is, and the likelihood of gas prices going to \$5.00 or \$6.00, all the businesses in WSCI's territory are at risk. You can be sure that all the local businesses rely heavily on our campers patronizing our local merchants.

Any and all assistance you can give us is greatly appreciated.

Respectfully,



James E. Rose
President

WSCI Rate Case: Public Hearing (Newton County)

My name is Benjamin B. Gehrmann, I'm the licensed Health Facility Administrator at Autumn Hills Health and Rehab Center located at 10352 N 600 E County Line Rd, DeMotte, IN. We give 24 hour skilled nursing care to some 80 patients at any time.

Last October we received an 11.1% cut in Medicare reimbursement and in January of this year a 5% cut in Medicaid reimbursement for our most needy patients, while only asking for a 3% increase to our private paying patients. The Utility proposal for water/sewage rates represents to us a 253% increase or \$7800 per month in an environment where Medicare and Medicaid are decreasing their payments (that's nearly \$100 per patient per month increase). Anyone can understand how it would be detrimental to a business to have costs increase 250% while revenue is decreasing and the "ripple effect" it would have on a community where it provides such a needed service and employs over 100 people.

Please do not allow these exorbitant increases. We are "tightening our belts" and operating as efficiently as we can in tough economic times while maintaining top quality care and we ask that the Utility do the same.

Signed: Benjamin B. Gehrmann, HFA. Date: 5/2/12.

Benjamin B. Gehrmann

License Number: 14005063A