

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF ANDERSON, INDIANA)
(1) FOR AUTHORITY AND APPROVAL TO)
INCREASE RATES AND CHARGES FOR WATER)
SERVICE, INCLUDING APPROVAL OF NEW)
SCHEDULE(S) OF RATES AND CHARGES FOR)
WATER SERVICE, AND (2) FOR AUTHORITY AND)
APPROVAL TO ISSUE BONDS, NOTES, OR OTHER)
OBLIGATIONS OF INDEBTEDNESS)

CAUSE NO. 44510

SETTLEMENT TESTIMONY OF

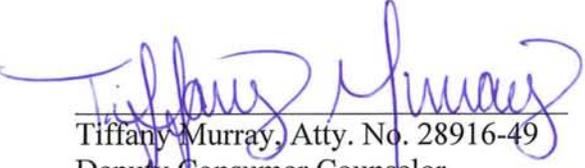
MARGARET A. STULL – PUBLIC’S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

NOVEMBER 25, 2014

Respectfully submitted,


Tiffany Murray, Atty. No. 28916-49
Deputy Consumer Counselor

SETTLEMENT TESTIMONY OF OUCC WITNESS MARGARET A. STULL
CAUSE NO. 44510
CITY OF ANDERSON MUNICIPAL WATER UTILITY

I. INTRODUCTION

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

2 A: My name is Margaret A. Stull, and my business address is 115 W. Washington
3 St., 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) as a
6 Senior Utility Analyst in the Water/Wastewater Division.

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

8 A: I graduated from the University of Houston at Clear Lake City in August 1982
9 with a Bachelor of Science degree in accounting. From 1982 to 1985, I held the
10 position of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From
11 1985 until 2001 I worked for Enron Corp. in various positions of increasing
12 responsibility and authority; first in their gas pipeline accounting department, then
13 in financial reporting and planning, both for the gas pipeline group and the
14 international group, and finally providing accounting support for infrastructure
15 projects in Central and South America. From 2002 until 2003, I held non-utility
16 accounting positions in Indianapolis. In August 2003, I accepted a utility analyst
17 position with the OUCC. In 2011, I was promoted to Senior Utility Analyst.
18 Since joining the OUCC I attended the NARUC Eastern Utility Rate School in

1 Clearwater Beach, Florida and the Institute of Public Utilities' Advanced
2 Regulatory Studies Program in East Lansing, Michigan.

3 **Q: Have you held any professional licenses?**

4 A: Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of
5 Texas until I moved to Indiana in 2002.

6 **Q: Have you previously testified before the Indiana Utility Regulatory
7 Commission (IURC or Commission)?**

8 A: Yes. I have testified before the IURC as an accounting witness in various causes
9 involving water, wastewater, electric, and gas utilities.

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

11 A: The purpose of my testimony is to support the Joint Stipulation and Settlement
12 Agreement (the Settlement) reached in this Cause between the OUCC and the
13 City of Anderson Municipal Water Utility (Petitioner or Anderson) (collectively
14 known as the Settling Parties or the Parties). More specifically, I will discuss the
15 effect of the Settlement on Anderson's revenue requirement components,
16 including operating expenses, taxes, depreciation, working capital, payment in
17 lieu of taxes (PILT), and debt service. I also address issues regarding accounting
18 practices, the restriction of depreciation and maintenance funds, the guaranteed
19 savings contract with Johnson Controls, Inc., the AMR meter capital lease, and
20 non-recurring fees. Finally, I discuss certain reporting requirements agreed to by
21 the Settling Parties.

22 **Q: Does the OUCC consider the proposed Settlement to be in the public
23 interest?**

24 A: Yes.

1 **Q: Please describe the review and analysis you performed.**

2 A: I reviewed Anderson's testimony, exhibits, schedules, and workpapers filed in
3 this case. I reviewed the annual audit reports prepared by the Indiana State Board
4 of Accounts (SBOA) for the City of Anderson for the years 2011, 2012, and 2013.
5 I also reviewed the IURC annual reports filed by Anderson for the period 2007 –
6 2013. I participated in the on-site accounting review conducted on September
7 15–16, 2014, which included a review of selected test year general ledger
8 transactions. I prepared discovery questions and reviewed responses to those
9 questions. I attended the Public Field Hearing held on September 22, 2014 at the
10 City of Anderson City-County Auditorium and I read written comments
11 ratepayers provided to the OUCC. Finally, I attended several meetings with other
12 OUCC staff members to identify and discuss the issues in this Cause.

13 **Q: What schedules are submitted with your testimony?**

14 A: My testimony includes the following accounting schedules, which reflect the
15 adjustments and positions agreed upon by the Settling Parties in this Cause:

16 Schedule 1 – Overall Revenue Requirement Comparison and Reconciliation of
17 Net Operating Income Statement Adjustments

18 Schedule 1A– Revenue Requirement for Phase I and Phase II

19 Schedule 2 – Comparative Balance Sheet as of December 31, 2013, 2012, and
20 2011

21 Schedule 3 – Income Statement for the Twelve Months Ended December 31,
22 2013, 2012, and 2011

23 Schedule 4 – *Pro Forma* Net Operating Income Statement

24 Schedule 5 – Revenue Adjustments

25 Schedule 6 – Expense Adjustments

- 1 Schedule 7 – Working Capital Calculation
- 2 Schedule 8 – Debt Service
- 3 Schedule 8A– Amortization Schedule for 2015 Waterworks Bonds
- 4 Schedule 8B– Estimated Sources and Uses of Funds for 2015 Waterworks Bonds

II. OVERVIEW OF SETTLEMENT

5 **Q: What rate relief have the Settling Parties agreed to in this Cause?**

6 A: The Settling Parties agree to Petitioner's proposed overall rate increase of 46.85%
7 as well as Petitioner's proposal to implement the increase in two phases.
8 Specifically, the Parties agree to an overall total revenue requirement of
9 \$11,092,308 and a revenue increase of \$3,502,848. This increase will be
10 implemented in two phases, with revenues increasing by 21.18% in each phase.

11 **Q: How have the Parties agreed to implement these phased rate increases?**

12 A: The Parties agree that the Phase I increase be implemented upon issuance of the
13 Commission Order in this Cause and the Phase II increase take effect twelve
14 months before Petitioner's first principal payment is due on its 2015 Bonds.

15 **Q: Will the rate increase be implemented on an across-the-board basis?**

16 A: Yes. The Parties agree the rate increase approved in this Cause will be
17 implemented on an across-the board basis. Petitioner did not prepare a cost of
18 service study in this Cause.

19 **Q: Has Petitioner experienced any material change to its customer class**
20 **configuration since its last base rate case?**

21 A: Yes. Since Petitioner's last base rate case there has been a decline in residential
22 customer count while at the same time there has been growth in industrial

1 customer consumption. The Parties agree that Petitioner will conduct a cost of
 2 service study for its next general water rate case before the Commission. Please
 3 see the settlement testimony of OUCC witness Scott A. Bell for a more detailed
 4 discussion of this aspect of the Settlement.

III. REVENUE REQUIREMENT

A. Comparison of Proposed Revenue Requirement

5 **Q: Please explain the revenue requirement agreed upon by the Parties.**

6 **A:** The Parties have agreed upon a *pro forma* net revenue requirement of \$9,158,502

7 in Phase I and \$11,072,691 in Phase II, each phase representing a 21.18%

8 increase in revenues. (See Settlement Schedule 1A, page 1 of 1.)

TABLE 1: Pro Forma Net Revenue Requirement Comparison

	Per Settlement			Per Petitioner	Settlement More (Less)
	Phase I	Phase II	Overall		
Operating Expenses	\$ 6,426,698	\$ 6,583,868	\$ 6,583,868	\$ 6,685,524	\$ (101,656)
Taxes Other than Income	287,502	315,974	293,798	289,722	4,076
Payment in Lieu of Taxes (PILT)	-	476,737	476,737	510,406	(33,669)
Depreciation Expenses (E&R)	-	952,615	952,615	1,022,448	(69,833)
Working Capital	981,438	755,725	755,725	1,128,183	(372,458)
Debt Service - Current	1,088,736	1,089,435	1,089,435	1,089,435	-
Debt Service - Proposed	415,921	940,130	940,130	1,107,980	(167,850)
Total Revenue Requirement	9,200,295	11,114,484	11,092,308	11,833,698	(741,390)
Less: Interest Income	-	-	-	-	-
Other Income, net	(16,440)	(16,440)	(16,440)	-	(16,440)
Connection Fees	(25,353)	(25,353)	(25,353)	-	(25,353)
<i>Pro forma</i> Net Revenue Requirement	9,158,502	11,072,691	11,050,515	11,833,698	(783,183)
Less: Revenues Subject to Increase	(7,477,314)	(9,061,285)	(7,477,314)	(7,356,084)	(121,230)
Other Revenues at Current Rates	(119,393)	(119,393)	(119,393)	(166,018)	46,625
Unadjusted Revenue Increase Required	1,561,795	1,892,013	3,453,808	4,311,596	(857,788)
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986	0.986	0.986	0.986
Calculated Revenue Increase	\$ 1,583,971	\$ 1,918,877	\$ 3,502,848	\$ 4,372,815	\$ (869,968)
Calculated Percentage Increase	21.18%	21.18%	46.85%	59.45%	-12.60%
Recommended Percentage Increase (as requested by Petitioner)	21.18%	21.18%	46.85%	46.85%	0.00%

1 **Q: Please explain the \$46,625 difference reflected for “Other Revenues at**
2 **Current Rates.”**

3 A: This amount represents test year late fee (forfeited discount) revenues and reflects
4 the difference in how these revenues are treated by Petitioner and the OUCC.
5 Petitioner includes late fee revenues in “Other Revenues at Current Rates.” The
6 OUCC includes late fee revenues in the calculation of “Revenues Subject to
7 Increase.” The settlement schedules reflect the inclusion of late fee revenues in
8 Revenues Subject to Increase. There is an equal offsetting difference included in
9 the variance of \$121,230¹ for “Revenues Subject to Increase.” The settlement
10 schedules also include two customer revenue adjustments in the net amount of
11 \$74,605.

B. Revenue Requirement Offsets

12 **Q: Please explain why the Parties agreed to offsets to the total revenue**
13 **requirement.**

14 A: Petitioner has sources of income other than water operating revenues. These
15 income sources include rental income and connection or tap fee revenues.
16 Petitioner received \$16,620 of cell tower rental income during the test year from
17 an agreement with AT&T renting space on a water tower for an antenna and a
18 telecommunications equipment structure. Petitioner currently receives \$1,370 of
19 rental income per month or \$16,440 per year (\$1,370 x 12). Further, through
20 discovery, the OUCC determined that Petitioner's revenues classified as
21 “Servicing Customer Installations” represent monies received from customers for

¹The variance of \$121,230 is composed of the revenue adjustments of \$74,605 and late fee revenues of \$46,625.

1 water taps or connections and that the associated costs of these water
2 taps/connections were included as part of its test year operating expenses.
3 Because the revenue requirement includes the costs of these water
4 taps/connections, the fees collected from customers are included as an offset to
5 the total agreed revenue requirement. The Settlement Schedules include \$25,353
6 (test year revenues of \$18,856 + a prior period adjustment (2012) of \$6,497) of
7 tap fee revenue as an offset in the determination of the revenue requirement.

IV. OPERATING REVENUES

8 **Q: What operating revenue adjustments have the Settling Parties included in**
9 **the settlement schedules?**

10 A: The settlement schedules reflect two operating revenue adjustments related to
11 post-test year changes to residential customer count and industrial customer
12 consumption.

13 **Q: Please explain the change to residential customer count.**

14 A: The Settlement Schedules include a decrease of \$43,728 to test year residential
15 water revenues to reflect the decrease in the number of residential customers as of
16 June 30, 2014. As of June 30, 2014, Petitioner had 19,979 residential customers,
17 the equivalent of 239,748 (19,979 x 12) *pro forma* annual billings. Multiplying
18 *pro forma* annual billings times the average test year residential bill of \$18.074
19 yields *pro forma* residential water revenues of \$4,333,205, a decrease of \$43,728
20 from test year residential water revenues of \$4,376,933. (*See* Settlement Schedule
21 5, Adjustment 1.)

1 **Q: Please explain the change in industrial customer consumption.**

2 A: The Parties included an increase of \$118,333 to test year industrial water revenues
3 to reflect an increase in consumption by a large industrial customer after the end
4 of the test year. The Settlement Schedules include *pro forma* annual industrial
5 consumption, which is increased by 11,132,000 cubic feet. Multiplying this *pro*
6 *forma* increase in consumption times \$1.063, the lowest rate block in Petitioner's
7 current tariff, yields an increase of \$118,333 to test year industrial water revenues.
8 (*See* Settlement Schedule 5, Adjustment 2.) In total, *pro forma* present rate
9 operating revenues are \$7,596,707 in Phase I and \$9,180,678 in Phase II. (*See*
10 Settlement Schedule 4.)

V. OPERATING EXPENSES

11 **Q: What operating expense adjustments did Petitioner propose?**

12 A: Petitioner proposed several adjustments to test year operating expenses including,
13 employee benefits (PERF), unbilled wastewater charges, and non-recurring
14 expenses.

15 **Q: Do the Settlement Schedules include any of Petitioner's proposed operating**
16 **expense adjustments?**

17 A: No. Although the Parties agree that an adjustment is warranted for employee
18 benefits, the adjustment included in the settlement schedules differs from
19 Petitioner's due to adjustments to *pro forma* salaries and wages. Further, while
20 the Parties also agree that an adjustment is warranted for non-recurring expenses,
21 the adjustment included in settlement schedules differs due to additional identified

1 non-recurring and capital costs. Finally, the Settlement Schedules do not include

2 Petitioner's adjustment for unbilled wastewater charges.

3 **Q: What additional operating expense adjustments have the Parties included in**
4 **the settlement schedules?**

5 A: In addition to the employee benefit and non-recurring expense adjustments
6 discussed above, the Parties included adjustments to salaries and wages, payments
7 for services to Johnson Controls, maintenance expense, and street repair expense.

8 In Phase I, these additional operating expense adjustments reflect a decrease of
9 \$52,728 to operating expenses and *pro forma* operating expense of \$6,426,698.

10 In Phase II, these additional operating expense adjustments reflect an increase of
11 \$157,170 to operating expenses and *pro forma* operating expense of \$6,583,868.

12 Table 2 presents a line by line comparison of the expense adjustments proposed
13 by Petitioner with those included in the Settlement.

TABLE 2: Comparison of Overall Operating Expense Adjustments

	Settlement			Petitioner	Settlement More (Less)
	Phase I	Phase II	Total		
Salaries and Wages	\$ (22,797)	\$ 82,502	\$ 59,705	\$ -	\$ 59,705
PERF Contribution	9,672	9,218	18,890	12,226	6,664
Waste Treatment - WTPs	-	-	-	224,748	(224,748)
Capital and Non-recurring	(108,034)	-	(108,034)	(30,875)	(77,159)
Johnson Controls Payment	(5,688)	-	(5,688)	-	(5,688)
Maintenance Expense	96,724	65,650	162,374	-	162,374
Street Repair Expense	(22,605)	-	(22,605)	-	(22,605)
Total	\$ (52,728)	\$ 157,370	\$ 104,642	\$ 206,099	\$ (101,457)

A. Salaries and Wages

1 **Q: Please explain the adjustments to Petitioner's test year salaries and wages**
2 **expense.**

3 A: There are three adjustments to Petitioner's test year salaries and wages expense.
4 In Phase I of the Settlement Schedules, there is an adjustment to the water
5 superintendent's salary and an adjustment to reflect the *pro forma* adjusted
6 allocation of municipal salaries. In Phase II, there is an additional adjustment to
7 reflect an approximate 3.5% annual wage increase for 2015. In total, these
8 adjustments result in an increase of \$59,505 and *pro forma* salaries and wages
9 expense of \$2,442,617. (See Settlement Schedule 6, Adjustment 1 and 1a.)

Phase I

10 **Q: Please explain the adjustment for the water superintendent's salary.**

11 A: Petitioner's water superintendent retired in 2014 and a replacement
12 superintendent has been hired. Petitioner's salaries and wages have been
13 increased to include this additional operating expense. (See Settlement Schedule
14 6, Adjustment 1.)

15 **Q: Please explain the adjustment for allocated municipal salaries and wages.**

16 A: In conjunction with its annual audits of the City of Anderson, the State Board of
17 Accounts (SBOA) identified an issue with the lack of support for the allocations
18 of city personnel to the City of Anderson's municipal utilities, including the water
19 utility. In response to this deficiency, the City of Anderson has developed revised
20 allocation percentages to its water utility to be implemented in 2015. This
21 adjustment incorporates this reduction and decreases salaries and wages by
22 \$68,827. (See Settlement Schedule 6, Adjustment 1).

Phase II

1 **Q: Please explain the adjustment for annual wage increases.**

2 A: The Settlement Schedules include an increase in test year salaries and wages to
3 reflect a 3.4869% annual wage increase expected for 2015. Multiplying Phase I
4 *pro forma* salaries and wages of \$2,360,315 times 3.4869% yields an increase of
5 \$82,302. (*See* Settlement Schedule 6, Adjustment 1a.)

B. PERF Expense

6 **Q: Please explain the proposed adjustment to Petitioner's test year PERF**
7 **expense.**

8 A: As discussed above, the Settlement Schedules reflect that an adjustment to PERF
9 expense is warranted based on the change in the PERF rate for 2014. The PERF
10 adjustment differs from Petitioner's because the 2014 PERF rate of 11.2% is
11 applied to a different amount of *pro forma* salaries and wages expense. In Phase
12 I, *pro forma* salaries and wages expense are \$2,360,315. Applying the 11.2%
13 2014 PERF contribution rate yields *pro forma* PERF expense of \$264,355, an
14 increase of \$9,672 to test year PERF expense. (*See* Settlement Schedule 6,
15 Adjustment 2.) In Phase II, there are additional salaries and wages expense of
16 \$82,302. Applying the 11.2% 2014 PERF contribution rate yields an increase of
17 \$9,218 to Phase I PERF expense. (*See* Settlement Schedule 6, Adjustment 2a.)

C. Capital, Non-Recurring, and Out-of-Period Expenses

1 **Q: Do the Settling Parties accept Petitioner's proposed adjustments for non-**
2 **recurring expenses?**

3 A: Yes. The Parties agree that the \$30,875 in non-recurring expenses identified by
4 Petitioner are not includable in *pro forma* operating expenses for ratemaking
5 purposes. However, the Settlement Schedules also indicate that the GIS
6 conversion costs (\$18,000) are capital in nature and should be included in utility
7 plant for purposes of calculating depreciation expense and PILT. Further, the
8 Settlement Schedules also show additional test year expenses that are classified as
9 either capital in nature, non-recurring, or out-of-period.

10 **Q: Please explain the additional expenses eliminated from *pro forma* operating**
11 **expenses as either capital in nature, non-recurring, or out-of-period as**
12 **reflected in the Settlement Schedules.**

13 A: The Schedules show that additional test year transactions are eliminated from *pro*
14 *forma* operating expenses, including rate case expense, costs that are capital in
15 nature, and out-of-period costs. In total, the Schedules indicate test year operating
16 expenses should be decreased by an additional \$77,159. (*See* Settlement
17 Schedule 6, Adjustment 3.)

Rate Case Expense:

18 **Q: Please explain the adjustment to test year rate case expense.**

19 A: Some rate case costs, as well as borrowing costs are included in the amount to be
20 borrowed and, therefore, the Settlement Schedules do not include these costs in
21 *pro forma* operating expenses. An additional expense of \$28,953 for preparation
22 of the rate study in this Cause has been eliminated from *pro forma* operating
23 expense.

Capital Costs:

1 **Q: Please explain the proposed adjustment to eliminate costs that are capital in**
2 **nature.**

3 A: A review of test year transactions identified two additional test year transactions
4 that were capital in nature. The Settlement Schedules eliminate \$4,335 of
5 engineering services related to the new VFD high service pump at the Lafayette
6 water treatment plant. Also, the Settlement Schedules eliminate \$23,596 of costs
7 to replace the pump for the Elder St. #2 well.

Out-of-Period Costs:

8 **Q: Please explain the proposed adjustment to eliminate out-of-period costs.**

9 A: The Settlement Schedules eliminate out-of-period costs related to damage caused
10 by digging into electrical services. This damage occurred outside of the test year
11 and the expense was recorded twice. In total, the Schedules eliminate \$3,124
12 (\$1,562 x 2) of test year operating expense related to this out-of-period
13 transaction.

Amortization of Management Review Costs:

14 **Q: Please explain the proposed adjustment to amortize management review**
15 **costs incurred during the test year.**

16 A: The Settlement Schedules eliminate \$17,151 of costs related to an operation
17 management review conducted by Collaboration Unlimited. Although this is not
18 a recurring annual expense, the settled revenue requirements include an annual
19 expense of \$8,575 (\$25,726 / 3 years) in *pro forma* operating expenses, allowing
20 Petitioner to recover these expenses over three (3) years. Subtracting test year
21 expense of \$25,726 from the allowed annual expense of \$8,575 yields a decrease
22 of \$17,151 to test year operating expenses.

D. Johnson Controls Guaranteed Savings Contract

1 **Q: Please explain the adjustment to operating expenses for the payment to**
2 **Johnson Controls under the Services Contract.**

3 A: Petitioner's test year operating expenses include \$67,688 or the annual payment to
4 Johnson Controls under the Measurement & Verification and Consultation
5 Services terms of the Guaranteed Savings Contract (Contract). On December 21,
6 2011, the City of Anderson Board of Works and Johnson Controls agreed to
7 amend certain terms of the Contract (the 2011 amendment). The 2011
8 amendment revised the annual payments that the City of Anderson Municipal
9 Water and Sewer Utilities will make to Johnson Controls. The City of Anderson
10 allocates these costs 55% to Water and 45% to Sewer. According to the 2011
11 amendment, the City of Anderson Municipal Water and Sewer Utilities will pay
12 Johnson Controls \$112,728 in 2014. Petitioner's allocated portion is \$62,000
13 (\$112,728 x 55%). Therefore, the Schedules include a reduction to test year
14 operating expenses of \$5,688 (\$62,000 - \$67,688). (See Settlement Schedule 6,
15 Adjustment 4.)

E. Maintenance Expense

Well Maintenance

16 **Q: Did Petitioner incur any well maintenance expense during the test year?**

17 A: Yes. Petitioner incurred \$92,639 of well and pump maintenance expense with
18 Bastin Logan, of which \$81,008 was related to well cleaning costs for six (6) of
19 its current wells. Other than these test year expenses, Petitioner did not propose
20 any well maintenance adjustment.

1 **Q: What well maintenance expense adjustment have the Parties included in the**
2 **revenue requirement?**

3 A: The Parties included annual *pro forma* well cleaning expense of \$49,505. The
4 calculation of this expense is shown below. (*See also* Settlement Schedule 6,
5 Adjustment 5.)

TABLE 3: Calculation of Pro forma Well Cleaning Expense²

Total Test Year Well Cleaning Expense	\$81,008.07
Divide by 6 Wells Cleaned	6
Average Well Cleaning Cost	13,501.35
Times Number of Wells to be Cleaned	11
Total Pro forma Well Cleaning Cost	148,514.85
Amortized over 3 years	3
Annual Pro forma Well Cleaning Cost	\$49,504.95

Tank Maintenance

6 **Q: Did Petitioner propose an adjustment to reflect the annual expense of**
7 **recurring tank maintenance costs?**

8 A: No. Petitioner currently has seven (7) elevated water storage tanks. Other than an
9 inspection of the Park Rd. tank, Petitioner did not perform any maintenance on its
10 tanks during the test year. No costs related to painting or maintaining any of the
11 other six (6) elevated storage tanks was included in Petitioner's revenue
12 requirement.

13 **Q: What amount of tank maintenance expense do the Settlement Schedules**
14 **include in the operation and maintenance expense revenue requirement?**

15 A: The cost to inspect, repair, and paint Petitioner's existing water storage tanks is
16 unknown at this time. Therefore, the Parties included \$195,722, the amount of
17 tank maintenance expense incorporated in Petitioner's most recent base rate case,

² Petitioner currently has 18 wells in its two well fields, including the new Rock Well. Petitioner has indicated in its case-in-chief that it intends to abandon its four (4) Ranney Wells as well as three additional wells (Jarrett, Norton #1, and Norton #2). Therefore, no well cleaning costs need to be estimated for these seven (7) abandoned wells.

1 Cause No. 42914. The adjustment is an increase of \$193,877 to test year
2 operating expenses, calculated by taking \$195,722 and removing test year
3 expense of \$1,895. (*See* Settlement Schedule 6, Adjustment 5.)

Phase-in of Maintenance Costs:

4 **Q: Do the Settlement Schedules include all of the maintenance expense**
5 **adjustment in the Phase I revenue requirement?**

6 A: No. The total maintenance expense adjustment is \$162,374 (\$193,877 (tank) less
7 \$31,503 (well cleaning)). The Schedules include \$96,724 of this adjustment in
8 the Phase I revenue requirement and an additional \$65,650 in the Phase II revenue
9 requirement.

F. Street Repair Expense

10 **Q: Please explain what “street repair” expense represents.**

11 A: Street repair expense is the cost incurred to repair street cuts made to repair
12 leaking transmission and distribution mains. Petitioner incurred \$150,303 of
13 street repair expense during the test year, including \$127,366 of costs charged to
14 Petitioner from the Anderson Street Department. Petitioner expenses all costs
15 incurred for street repair.

16 **Q: Do the Settlement Schedules s include an adjustment to street repair**
17 **expense?**

18 A: Yes. There are two adjustments to street repair expense. The first adjustment
19 eliminates out-of-period expenses charged by the Anderson Street Department,
20 which results in a reduction to test year operating expenses of \$17,066. The
21 second adjustment eliminates a prior period adjustment related to 2012, which

1 results in a reduction to test year operating expenses of \$5,539. (See Settlement
2 Schedule 6, Adjustment 6.)

VI. TAXES OTHER THAN INCOME

A. Payroll Taxes

3 **Q: Please explain the payroll tax expense adjustment included by the Parties in**
4 **the settlement schedules.**

5 A: Phase I *pro forma* salaries and wages are \$2,360,315. Taking this amount and
6 multiplying by a FICA rate of 7.65% yields *pro forma* payroll tax expense of
7 \$180,564. Test year payroll tax expense was \$179,528, therefore yielding an
8 increase in payroll tax expense of \$1,036 (\$180,564 - \$179,528). (See Settlement
9 Schedule 6, Adjustment 8.)

10 Phase II *pro forma* salaries and wages increased by \$82,302. Taking this
11 amount and multiplying by a FICA rate of 7.65% yields additional payroll tax
12 expense of \$6,296. (See Settlement Schedule 6, Adjustment 8a.)

B. Utility Receipts Tax

13 **Q: Please explain how the calculation of utility receipts tax in the settlement**
14 **schedules differs from Petitioner's calculation.**

15 A: The Schedules show two changes to the calculation of utility receipts tax. First,
16 the Settlement Schedules reflect an exemption of \$333. Second, the utility
17 receipts tax form allows a utility to deduct bad debt expense from the amount
18 subject to utility receipts taxes. Therefore, the Schedules reduced taxable
19 revenues by the amount of test year bad debt expense of \$109,335. The total *pro*

1 *forma* utility receipts tax expense calculates to \$104,819, 1.4% of net *pro forma*
2 present rate operating revenues of \$7,487,039. (See Settlement Schedule 6,
3 Adjustment 9.)

VII. PAYMENT IN LIEU OF TAXES (PILT)

4 **Q: What does the PILT revenue requirement represent?**

5 A: Payments in Lieu of Taxes (PILT) are the property taxes that would be owed and
6 paid to a municipality if the municipal utility were investor-owned.

7 **Q: Please explain how the PILT calculation in the Settlement Schedules differs**
8 **from Petitioner's calculation.**

9 A: The Settlement Schedules include three (3) changes to Petitioner's PILT
10 calculation. First, construction work in progress is excluded from the calculation
11 of taxable utility plant in service. Second, \$18,000 of test year GIS capital costs
12 is included in the calculation of taxable utility plant in service. These costs were
13 eliminated from test year operating expenses. (See Settlement Schedule 6,
14 Adjustment 3.) Finally, an agreed to amount has been excluded from Petitioner's
15 asset base for property located outside of the City of Anderson municipal limits.

16 **Q: Please explain the PILT adjustment included in the Settlement Schedules.**

17 A: The Schedules calculate PILT expense based on net taxable utility plant of
18 \$22,006,960. Taking this amount and applying a tax rate of .021663 yields a *pro*
19 *forma* PILT expense of \$476,737. Based on test year PILT expense of \$215,554,
20 this calculation yields an increase of \$201,183. (See Settlement Schedule 6,
21 Adjustment 10.)

VIII. DEPRECIATION EXPENSE

1 **Q: Please explain how the depreciation expense calculation included in the**
2 **settlement schedules differs from Petitioner's calculation.**

3 A: The Settlement Schedules contain three (3) changes to Petitioner's depreciation
4 expense calculation. First, construction work in progress is excluded from the
5 calculation of depreciable utility plant in service. Second, \$45,931 of test year
6 capital costs are included in the calculation of taxable utility plant in service. (*See*
7 *Settlement Schedule 6, Adjustment 3.*) Finally, a 2% depreciation rate has been
8 applied to all depreciable utility plant in service.

9 **Q: Please explain the depreciation expense adjustment.**

10 A: Depreciation expense is based on depreciable utility plant in service of
11 \$47,630,771. Taking this amount and applying a depreciation rate of 2% yields a
12 *pro forma* depreciation expense of \$932,615. Test year depreciation expense was
13 \$820,242, therefore yielding an increase in depreciation expense of \$132,373
14 (\$932,615 - \$820,242). (*See Settlement Schedule 6, Adjustment 7.*)

IX. WORKING CAPITAL

15 **Q: Please explain how the calculation of Working Capital included in the**
16 **settlement schedules differs from Petitioner's calculation.**

17 A: The Settlement Schedules show five (5) changes to Petitioner's working capital
18 calculation. First, due to various expense adjustments, operation and maintenance
19 expense differs by \$258,827 in Phase I and \$101,657 in Phase II. Second, taxes
20 are excluded from the calculation of working capital, including PILT. Third,
21 purchased power expense is excluded from the working capital calculation.

1 Fourth, the Schedules reflect the FERC 45 Day working capital calculation
2 method. Finally, the Schedules amortize the calculated working capital
3 requirement over 1.75 years in Phase I. The remaining unfunded working capital
4 requirement is fully funded in Phase II over 1 year.

5 **Q: Please explain the working capital revenue requirement.**

6 A: The working capital revenue requirement is \$981,488 in Phase I and \$755,725 in
7 Phase II. The working capital revenue requirement includes \$1,000,000 for
8 repayment of the interdepartmental loan and assumes that Phase I will be in effect
9 for one year. (*See Settlement Schedule 7.*)

X. DEBT SERVICE

10 **Q: Please explain how the calculation of the 2015 Waterworks Bonds debt**
11 **service included in the settlement schedules differs from Petitioner's**
12 **calculation.**

13 A: The Settlement Schedules reflects OUCC's proposed changes to Petitioner's debt
14 service calculation related to the 2015 Waterworks Bonds. While the Settlement
15 Agreement provides that Petitioner should be granted authority to issue up to
16 \$14,270,000 in long term debt, the annual amount of debt service in the
17 Settlement Schedules is based on a borrowing of \$14,225,000 at updated interest
18 rates as of October 10, 2014 plus a 50 basis point cushion.

19 **Q: Please explain why the Settlement Schedules reflect a borrowing of**
20 **\$14,225,000.**

21 A: This reduced borrowing amount is primarily due to the lower interest rates that
22 the OUCC used. The lower interest rates used by the OUCC lead to a lower
23 maximum annual debt service (\$1,110,648 vs. \$1,064,740). In turn, the lower

1 maximum annual debt service reduces the required debt service reserve.
2 Petitioner is borrowing its debt service reserve, therefore, reducing the annual
3 debt service reserve reduces the amount Petitioner needs to borrow, which in turn
4 reduces both the IURC fee and the underwriter's discount. Thus, the total impact
5 of the OUCC's lower interest rate would be a reduction of \$45,000 in the amount
6 of debt to be borrowed. (See Settlement Schedule 8B.) Petitioner retains the
7 authority to borrow up to \$14,270,000.

8 **Q: Please explain the total debt service revenue requirement included in the**
9 **Settlement Schedules.**

10 A: The Phase I debt service revenue requirement is \$1,504,657, including \$1,088,736
11 of current debt service and \$415,921 of proposed debt service (interest only). The
12 Phase II debt service revenue requirement is \$2,029,565, including \$1,089,435 of
13 current debt service and \$940,130 of proposed debt service (principal and
14 interest).

15 **Q: Will there be a gap between the time Petitioner receives an order in this**
16 **Cause and when it issues its proposed debt?**

17 A: Petitioner cannot issue its proposed long-term debt until the Commission issues
18 an order in this Cause, so there will necessarily be some amount of time between
19 the date of the final order and the issuance of Petitioner's debt. During the
20 interim period between when Petitioner increases its rates and prior to issuing its
21 proposed debt, any funds collected for its annual debt service will be used to
22 reduce Petitioner's interdepartmental loan with Anderson's Sewer utility.

23 **Q: Have the Parties agreed to a maximum interest rate associated with the**
24 **financing authority being granted in this Cause?**

25 A: Yes. The Settling Parties have agreed that the interest rate may not exceed 6%.

1 **Q: What have the Parties agreed to regarding the expiration of the financing**
2 **authority being granted in this Cause?**

3 A: The Parties agree that if Petitioner issues its debt for less than the amount
4 authorized by the Commission, (unless otherwise agreed to by the parties) any
5 unused authority expires 360 days after an order is issued in this Cause.

XI. ACCOUNTING PRACTICES

6 **Q: Have the Settling Parties agreed to any recommended accounting practices?**

7 A: Yes. The Parties agree Petitioner will develop and implement a comprehensive
8 accounting manual by December 31, 2015. This accounting manual will set forth
9 standards for journal vouchers, including development of required journal
10 voucher support, standardized journal voucher numbering system for transactions
11 other than accounts payable, inventory, and payroll, and journal voucher approval
12 process. Further, journal vouchers will be filed in a readily available location,
13 including all supporting documentation. The development of this accounting
14 manual will assist in the cross training of accounting personnel and facilitate
15 future utility accounting reviews.

16 **Q: Have the Settling Parties agreed to any other specific regulatory accounting**
17 **practices?**

18 A: Yes. The Parties agree Petitioner will reconcile bank accounts on a monthly basis
19 and develop a schedule showing each fund's balance included in the pooled cash
20 account. Further, the Parties agree Petitioner will research the possibility of
21 recording its public fire protection surcharge in a separate account from water
22 sales revenues and implement if it can reasonably be accomplished. Finally, the
23 Parties agree Petitioner will either adopt the NARUC Uniform System of

1 Accounts (USoA) numbering system or develop a “crosswalk” to allow ease of
2 reference between Petitioner’s accounting system and NARUC.

XII. RESTRICTED ACCOUNTS

A. Depreciation Fund

3 **Q: Please explain the restrictions the Settling Parties have agreed to regarding**
4 **the depreciation fund.**

5 A: The Parties agree Petitioner will establish a depreciation fund that is restricted to
6 pay for capital improvement projects. Petitioner will begin funding the
7 depreciation fund starting on January 1, 2017 at a monthly level of at least one-
8 twelfth (1/12) of the annual depreciation expense included in the revenue
9 requirements reflected on Settlement Schedule 1A. To the extent the depreciation
10 fund is not so funded in any given month, Petitioner will make up the funding
11 deficit as soon as monthly revenues are available to do so. Finally, the
12 depreciation fund may be invaded in the event Petitioner requires money to make
13 debt service payments on its outstanding debt subject to notice requirements.

B. Well and Tank Maintenance Fund

14 **Q: Please explain the restrictions the Settling Parties have agreed to regarding**
15 **the well and tank maintenance fund.**

16 A: The Parties agree Petitioner will establish a well and tank maintenance fund that
17 is restricted to pay expenses associated with tank and well maintenance.
18 Petitioner will begin funding the depreciation fund starting on January 1, 2017 at
19 a monthly level of at least one-twelfth (1/12) of the annual well and tank

1 maintenance expense included in the revenue requirements reflected on
2 Settlement Schedule 1A. To the extent the well and tank maintenance fund is not
3 so funded in any given month, Petitioner will make up the funding deficit as soon
4 as monthly revenues are available to do so. Finally, the well and tank
5 maintenance fund may be invaded in the event Petitioner requires money to make
6 debt service payments on its outstanding debt subject to notice requirements.

C. Debt Service Reserve Funds

7 **Q: Should there be any restrictions on Petitioner's proposed debt service**
8 **reserve?**

9 A: Yes. If Petitioner spends any funds from its debt service reserves for any reason
10 other than to make the last payment on its proposed 2015 debt issuance, Petitioner
11 will copy the OUCC on any notice Anderson gives to the lenders pursuant to the
12 terms of the Bond Ordinances pertaining to the use of monies in the Reserve
13 Account within the Sinking Fund.

XIII. AMR CAPITAL LEASE AND ASSOCIATED CONTRACTS

14 **Q: Please describe Petitioner's proposal to include debt service associated with**
15 **the 2006 capital lease as part of its proposed revenue requirements.**

16 A: Petitioner seeks to include \$690,758 in its annual revenue requirements to account
17 for its allocated portion of the 2006 capital lease (the Lease) the City of Anderson
18 executed with Chase Equipment Leasing (Chase). In addition, Petitioner seeks to
19 include \$67,689 in its revenue requirements for payments to Johnson Controls for
20 ongoing services related to the automatic meter reading (AMR) system.

1 Petitioner also recognizes its AMR system as utility plant in service (UPIS) and is
2 seeking to recover approximately \$250,000 in additional depreciation expense.

3 **Q: Have the Settling Parties reached an agreement as to how the lease payments**
4 **to Chase should be treated?**

5 A: Yes. Petitioner's allocated portion of the Lease with Chase represents an ongoing
6 financial commitment for Petitioner; therefore, it is long-term debt. The Parties
7 have agreed that the Commission should grant Petitioner authority to recognize
8 the allocated portion of the Lease with Chase as long-term debt.

9 **Q: How much should the Commission authorize Petitioner to incur for its lease**
10 **obligation to Chase?**

11 A: The Lease has a termination value of \$10,310,902 (January 1, 2015). Petitioner
12 responded in discovery that the termination value includes a 3.0% premium that
13 would be required to prepay the outstanding balance; therefore, the Lease will
14 have an outstanding balance on January 1, 2015 of \$10,010,584
15 (\$10,310,902/103%). Petitioner's allocated portion (44.11%) of the outstanding
16 balance is \$4,415,669. Rounding this figure up to the nearest \$5,000, the Parties
17 agree Petitioner should be granted authority to recognize long-term debt of
18 \$4,420,000 at an interest rate of 4.1342%.

19 **Q: Please explain the Parties' agreement regarding payments to Johnson**
20 **Controls.**

21 A: Petitioner's revenue requirement includes payments to Johnson Controls for
22 Measurement & Verification and Consultation services. The Parties have agreed
23 that these obligations may be offset in future rate cases by payments or credits to
24 the City of Anderson from Johnson Controls if such payments or credits occur

1 and are within the parameters for accounting adjustments as set forth in those
2 future rate cases.

XIV. REPORTING REQUIREMENTS

A. Cash Flow Statements

3 **Q: Please explain the Parties' agreement as to cash flow statements.**

4 A: As discussed in the settlement testimony of Mr. Bell, the Parties agree that
5 Petitioner will meet with the OUCC each quarter during the first twelve (12)
6 months its Phase I rates are in effect, and semi-annual for the two years after.
7 Prior to each of these meetings, the Parties' agree Petitioner will provide the
8 OUCC with a summary cash flow statement that reflects total cash inflows and
9 total cash outflows for the period being reported. This cash flow statement must
10 also show a breakdown of cash flows by category including, among other things,
11 operating expenses, debt service, PILT paid to the City, and funds deposited in
12 restricted accounts.

B. Debt-Related Reporting Requirements

13 **Q: Have the Settling Parties agreed to reporting requirements related to**
14 **Petitioner's proposed debt issuance?**

15 A: Yes. The annual debt service will not be known until Petitioner's debt is issued;
16 therefore, if Petitioner issues a lower amount of debt than assumed by the
17 Settlement, Petitioner's rates will be trued-up to reflect the actual cost of the debt.
18 Petitioner will file a report, within thirty (30) days of closing on its long term debt
19 issuance with the Commission and serve a copy on the OUCC, explaining the

1 terms of the new loan, including an amortization schedule, the amount of debt
2 service reserve, and a breakdown of all issuance costs by payee or vendor. The
3 report will include a revised tariff (if necessary) and also calculate the rate impact
4 in a manner similar to that used by Petitioner for its true-up report filed in its last
5 rate case. However, because this is a two-phase rate increase, Petitioner's
6 calculation in the true-up report will show the rate impact for both Phase I and
7 Phase II.

8 **Q: Should there be any exceptions to the agreed restrictions on the depreciation**
9 **and well and tank maintenance funds?**

10 A: Yes. Petitioner should be permitted to use the money in these restricted funds if
11 necessary to make payments on either its 2007 Bonds or its proposed 2015 Bonds.
12 This exception is needed because the bond market needs assurance that Petitioner
13 can use these monies to make debt service payments if necessary. The Parties
14 agree Petitioner must provide reasonable notice to the OUCC and IURC in the
15 event Petitioner uses any of these restricted funds to make debt service payments.
16 Reasonable notice means notification to the IURC and the OUCC within thirty
17 (30) days after any monies from either the depreciation fund or the well and tank
18 maintenance fund are used to pay debt service. The Parties further agree the
19 notice will include the amount of funds used to pay debt service and the date the
20 funds were paid out.

21 **Q: Have the Parties agreed to any further debt related reporting requirements?**

22 A: Yes. The Parties have agreed that Petitioner will provide the OUCC a transaction
23 ledger showing payments made to the Sewage Works from amounts collected for
24 debt service before the issuance of the proposed 2015 Waterworks Bonds.

C. Restricted Accounts

1 **Q: Have the Parties agreed to reporting requirements related to restricted**
2 **accounts?**

3 A: Yes. The Parties agree Petitioner will provide annual written reports for each of
4 the restricted accounts showing the balance of each fund and a schedule showing
5 the deposits and withdrawal activity for each of the restricted funds. These
6 restricted funds include the depreciation fund and the well and tank maintenance
7 fund. These reports will be provided to the OUCC at the same time Petitioner
8 submits its Annual Report to the IURC.

D. Capital Lease/Guaranteed Savings Contract

9 **Q: Please explain the reporting requirements the Settling Parties have agreed to**
10 **regarding the Chase Lease and the Guaranteed Savings Contract with**
11 **Johnson Controls.**

12 A: The Settling Parties agree Petitioner will notify the OUCC within thirty (30) days
13 if either the Lease with Chase or the Guaranteed Savings Contract is terminated or
14 otherwise amended to remove the City of Anderson's obligation to Chase or the
15 obligation of Johnson Controls to provide Measurement & Verification and
16 Consultation services.

XV. NON-RECURRING FEES

17 **Q: Please explain Parties' agreement regarding non-recurring fees.**

18 A: Non-recurring fees included in Petitioner's tariff should be cost-based and, as a
19 result, Petitioner agrees to update its non-recurring fees as necessary. Petitioner

1 agrees to provide testimony in its next base rate case addressing its then current
2 costs associated with these non-recurring fees.

XVI. RECOMMENDATIONS

3 **Q: What is your recommendation?**

4 A: I recommend the Commission approve the Settlement reached in this Cause in its
5 entirety and find that it is in the public interest.

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

7 A: Yes.

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

**Comparison of Petitioner's and Settlement's
Revenue Requirements**

	<u>Per Petitioner</u>	<u>Per Settlement</u>	<u>Sch Ref</u>	<u>Settlement More (Less)</u>
Operating Expenses	\$ 6,685,524	\$ 6,421,494	4	\$ (264,030)
Well and Tank Maintenance	-	162,374	4	162,374
Taxes other than Income	289,722	293,798	4	4,076
Depreciation Expense	1,022,448	952,615	4	(69,833)
Working Capital	1,128,183	755,725	7	(372,458)
PILT	510,406	476,737	4	(33,669)
Debt Service - Current	1,089,435	1,089,435	8	-
Debt Service - Proposed	1,107,980	940,130	8	(167,850)
Total Revenue Requirements	<u>11,833,698</u>	<u>11,092,308</u>		<u>(741,390)</u>
Less: Interest Income	-	-		-
Rental Income	-	(16,440)	3	(16,440)
Tap Fees	-	(25,353)	3	(25,353)
Add: Other Expenses	-	-		-
Net Revenue Requirements	<u>11,833,698</u>	<u>11,050,515</u>		<u>(783,183)</u>
Less: Revenues at Current Rates Subject To Increase	(7,356,084)	(7,477,314)	4	(121,230)
Forfeited Discounts	(46,625)	-	4	46,625
Other Revenues at Current Rates	(119,393)	(119,393)	4	-
Unadjusted Revenue Increase Required	<u>4,311,596</u>	<u>3,453,808</u>		<u>(857,788)</u>
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986		-
Increase as calculated	<u>\$ 4,372,815</u>	<u>\$ 3,502,848</u>		<u>\$ (869,967)</u>
Percentage increase as calculated	<u>59.45%</u>	<u>46.85%</u>		<u>-12.60%</u>
Recommended Percentage Increase (as requested by Petitioner)	<u>46.85%</u>	<u>46.85%</u>		<u>0.00%</u>

The Anderson Common Council authorized a 46.85% rate increase. Anderson's direct evidence in this Cause presented a larger revenue requirement, which, if approved, would result in a rate increase of 59.45%. However, Anderson only requested the 46.85% rate increase approved by the Anderson Common Council.

In these Settlement Schedules, the revenue requirement shown in the "Per Petitioner" columns is the *pro forma* revenue requirement presented in Anderson's direct evidence, and not the 46.85% rate increase Anderson requested.

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Reconciliation of Net Operating Income Statement Adjustments
Pro-forma Present Rates

	<u>Per Petitioner</u>	<u>Per Settlement</u>	<u>Settlement More (Less)</u>
Operating Revenues			
Residential	\$ -	\$ (43,728)	\$ (43,728)
Industrial	-	118,333	118,333
Other Miscellaneous Revenues	-	-	-
Total Operating Revenues	<u>-</u>	<u>74,605</u>	<u>74,605</u>
O&M Expense			
Salaries and Wages	-	59,505	59,505
PERF Contribution -- 2014	12,226	18,890	6,664
Waste Treatment - WTPs	224,748	-	(224,748)
Capital and Non-recurring Costs	(30,875)	(108,034)	(77,159)
Johnson Controls Payment	-	(5,688)	(5,688)
Maintenance Expense	-	162,374	162,374
Street Repair Expenses	-	(22,605)	(22,605)
Depreciation Expense	202,206	132,373	(69,833)
Amortization Expense	(7,044)	(7,044)	-
Taxes Other than Income			
FICA Tax	2,780	7,332	4,552
Utility Receipts	4,587	4,111	(476)
PILT	294,852	261,183	(33,669)
Total Operating Expenses	<u>703,480</u>	<u>502,397</u>	<u>(201,083)</u>
Net Operating Income	<u>\$ (703,480)</u>	<u>\$ (427,792)</u>	<u>\$ 275,688</u>

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

**Comparison of Petitioner's and Settlement's
Revenue Requirements**

	Per Petitioner			Per Settlement			Sch Ref	Settlement More (Less)		
	Phase I	Phase II	Overall	Phase I	Phase II	Overall		Phase I	Phase II	Overall
Operating Expenses	\$ 6,685,524	\$ 6,685,524	\$ 6,685,524	\$ 6,329,974	\$ 6,421,494	\$ 6,421,494	4	\$ (355,550)	\$ (264,030)	\$ (264,030)
Well and Tank Maintenance	-	-	-	96,724	162,374	162,374		96,724	162,374	162,374
Taxes other than Income	289,722	342,258	289,722	287,502	315,974	293,798	4	(2,220)	(26,284)	4,076
Depreciation Expense	1,022,448	1,022,448	1,022,448	-	952,615	952,615	4	(1,022,448)	(69,833)	(69,833)
Working Capital	1,123,805	1,128,183	1,128,183	981,438	755,725	755,725	7	(142,367)	(372,458)	(372,458)
PILT	510,406	510,406	510,406	-	476,737	476,737	4	(510,406)	(33,669)	(33,669)
Debt Service - Current	1,088,736	1,089,435	1,089,435	1,088,736	1,089,435	1,089,435	8	-	-	-
Debt Service - Proposed	501,500	1,107,980	1,107,980	415,921	940,130	940,130	8	(85,579)	(167,850)	(167,850)
Total Revenue Requirements	11,222,141	11,886,234	11,833,698	9,200,295	11,114,484	11,092,308		(2,021,846)	(771,750)	(741,390)
Less: Interest Income	-	-	-	-	-	-		-	-	-
Rental Income	-	-	-	(16,440)	(16,440)	(16,440)	3	(16,440)	(16,440)	(16,440)
Tap Fees	-	-	-	(25,353)	(25,353)	(25,353)	3	(25,353)	(25,353)	(25,353)
Add: Other Expenses	-	-	-	-	-	-		-	-	-
Net Revenue Requirements	11,222,141	11,886,234	11,833,698	9,158,502	11,072,691	11,050,515		(2,063,639)	(813,543)	(783,183)
Less: Revenues Subject To Increase	(7,356,084)	(11,108,659)	(7,356,084)	(7,477,314)	(9,061,285)	(7,477,314)	4	(121,230)	2,047,374	(121,230)
Forfeited Discounts	(46,625)	(46,625)	(46,625)	-	-	-		46,625	46,625	46,625
Other Revenues at Current Rates	(119,393)	(119,393)	(119,393)	(119,393)	(119,393)	(119,393)	4	-	-	-
Unadjusted Revenue Increase Required	3,700,039	611,557	4,311,596	1,561,795	1,892,013	3,453,808		(2,138,244)	1,280,456	(857,788)
Divide by Revenue Conversion Factor (100% - 1.4%)	0.986	0.986	0.986	0.986	0.986	0.986		0.986	0.986	0.986
Increase as calculated	\$ 3,752,575	\$ 620,240	\$ 4,372,815	\$ 1,583,971	\$ 1,918,877	\$ 3,502,848		\$ (2,168,604)	\$ 1,298,637	\$ (869,968)
Percentage increase as calculated	51.01%	5.58%	59.45%	21.18%	21.18%	46.85%		-29.83%	15.59%	-12.60%
Recommended Percentage Increase	21.18%	21.18%	46.85%	21.18%	21.18%	46.85%		0.00%	0.00%	0.00%

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

COMPARATIVE BALANCE SHEET
As of December 31,

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Utility Plant:			
Utility Plant in Service	\$ 48,085,230	\$ 47,806,342	\$ 47,745,823
Construction Work in Progress	243,459	43,705	46,238
Less: Accumulated Depreciation	(24,767,486)	(23,907,238)	(23,169,104)
Net Utility Plant in Service	<u>23,561,203</u>	<u>23,942,809</u>	<u>24,622,957</u>
Restricted Assets:			
Water Customer Deposit Fund	386,568	225,064	149,800
Contribution in Lieu of Taxes Fund	215,565	323,345	323,342
Well and Tank Maintenance Fund	-	-	-
Depreciation Reserve Fund	49,806	173,039	-
SRF Retainage Fund	-	-	151,150
Construction Fund	638,532	1,068,231	1,078,840
Automatic Meter Reading Fund	-	-	216,547
Mail Permit Deposits	3,000	3,000	3,000
Total Restricted Assets	<u>1,293,471</u>	<u>1,792,679</u>	<u>1,922,679</u>
Current Assets:			
Cash and Cash Equivalents	230,928	227,752	663,635
Accounts Receivable	630,038	656,611	663,382
Accounts Receivable - Associated	54,902	275	-
Accrued Interest	-	-	-
Prepaid Insurance	-	-	-
Materials and Supplies	278,581	317,297	267,226
Total Current Assets	<u>1,194,449</u>	<u>1,201,935</u>	<u>1,594,243</u>
Deferred Debits:			
Unrecovered Study Costs	64,889	9,250	-
Unamortized Debt Discount	97,427	98,590	105,635
Total Deferred Debits	<u>162,316</u>	<u>107,840</u>	<u>105,635</u>
Total Assets	<u>\$ 26,211,439</u>	<u>\$ 27,045,263</u>	<u>\$ 28,245,514</u>

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

COMPARATIVE BALANCE SHEET
As of December 31,

<u>LIABILITIES</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Equity			
Retained Earnings	\$ 8,668,227	\$ 8,839,931	\$ 8,496,242
Current Year Earnings	(281,307)	(104,135)	280,683
Proprietary Account	464,384	464,384	464,384
Donated Surplus	896,501	896,501	896,501
Total Equity	9,747,805	10,096,681	10,137,810
Contributions in Aid of Construction	2,212,157	2,212,157	2,212,157
Long-term Debt			
2007 Revenue Bond Issue	3,700,000	4,150,000	4,360,000
Capital Lease Payable - Long Term	8,480,079	9,357,950	10,200,624
Capital Lease Payable - Timekeeping Kronos	10,799	-	-
Total Long-term Debt	12,190,878	13,507,950	14,560,624
Current Liabilities			
Accounts Payable	63,545	28,218	17,541
Customer Meter Deposits	386,510	225,064	149,784
Capital Lease Payable - Current	883,271	842,674	808,887
2007 Revenue Bonds - Current	230,000		
SRF Retainage Payable	-	-	151,085
Temporary Loan Payable - Associated	300,000	-	-
Payroll Payable	157,869	93,591	168,802
Accrued expenses	39,404	38,928	38,824
Other Current Liabilities	2,060,599	1,228,475	1,334,923
Total Liabilities	\$ 26,211,439	\$ 27,045,263	\$ 28,245,514

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

COMPARATIVE INCOME STATEMENT
For the Twelve Months Ended December 31

	2013	2012	2011
Operating Revenues			
Residential	\$ 4,376,933	\$ 4,499,702	\$ 4,526,625
Commercial	1,839,252	1,874,234	1,853,431
Industrial	954,275	931,203	798,107
Institutional	33,669	34,000	41,874
Private Fire Protection	151,955	151,984	147,234
Forfeited Discounts	46,625	48,971	50,898
Other	119,393	104,310	59,666
Total Operating Revenues	<u>7,522,102</u>	<u>7,644,404</u>	<u>7,477,835</u>
Operating Expenses			
Salaries and Wages	2,383,112	2,277,079	2,468,693
Employee Medical	1,079,162	956,909	840,123
PERF	254,683	262,902	236,836
Purchased Power	665,857	739,113	643,234
Chemicals	74,105	59,145	104,424
Materials and Supplies	754,778	662,135	812,688
Contractual Services	629,501	777,294	587,522
Transportation Expense	126,962	162,151	156,276
Rental	67,000	67,000	65,125
Insurance	299,145	322,425	217,122
Bad Debt Expense	109,335	8,488	67,671
Miscellaneous Expense	35,786	3,992	7,652
Total O&M Expense	<u>6,479,426</u>	<u>6,298,633</u>	<u>6,207,366</u>
Depreciation Expense	820,242	813,780	623,862
Amortization Expense	7,044	7,044	(73,355)
Taxes Other than Income			
FICA Tax	179,528	174,529	190,484
Unemployment Taxes	2,119	16,053	8,508
Utility Receipts Tax	100,708	106,645	127,815
PILT	215,554	215,554	215,554
Total Operating Expenses	<u>7,804,621</u>	<u>7,632,238</u>	<u>7,300,234</u>
Net Operating Income	(282,519)	12,166	177,601
Other Income (Expense)			
Interest Income	613	1,414	583
Rental Income	16,620	14,280	16,660
AMR Lease - Sewer Portion	565,095	565,095	565,095
Other Income	626	-	160
Servicing Customer Installations	18,856	22,320	8,034
Jobbing and Contracting Revenue	(10,402)	2,724	(8,137)
Interest Expense - LT Debt	(590,196)	(632,909)	(479,313)
Extraordinary Losses	-	(89,225)	-
Total Other Income (Expense)	<u>1,212</u>	<u>(116,301)</u>	<u>103,082</u>
Net Income	<u>\$ (281,307)</u>	<u>\$ (104,135)</u>	<u>\$ 280,683</u>

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Pro-forma Net Operating Income Statement

	Year Ended 12/30/2014	Adjustments	Sch Ref	Phase I <i>Pro-forma</i> Present		Sch Ref	Phase I <i>Pro-Forma</i> Proposed		Phase II <i>Pro-forma</i> Present		Sch Ref	Phase II <i>Pro-Forma</i> Proposed	
				Rates	Adjustments		Rates	Adjustments	Rates	Adjustments		Rates	
Operating Revenues													
Residential	\$ 4,376,933	\$ (43,728)	5-1	\$ 4,333,205	\$ 917,933	1A	\$ 5,251,138		\$ 5,251,138	\$ 1,112,015	1A	\$ 6,363,153	
Commercial	1,839,252			1,839,252	389,621	1A	2,228,873		2,228,873	472,001	1A	2,700,874	
Industrial	954,275	118,333	5-2	1,072,608	227,218	1A	1,299,826		1,299,826	275,260	1A	1,575,086	
Institutional	33,669			33,669	7,132	1A	40,801		40,801	8,640	1A	49,441	
Private Fire Protection	151,955			151,955	32,190	1A	184,145		184,145	38,996	1A	223,141	
Forfeited Discounts	46,625			46,625	9,877	1A	56,502		56,502	11,965	1A	68,467	
Other Miscellaneous	119,393			119,393			119,393		119,393			119,393	
Total Operating Revenues	<u>7,522,102</u>	<u>74,605</u>		<u>7,596,707</u>	<u>1,583,971</u>		<u>9,180,678</u>	<u>-</u>	<u>9,180,678</u>	<u>1,918,877</u>		<u>11,099,555</u>	
O&M Expense	6,479,426			6,426,698			6,426,698		6,583,868			6,583,868	
Salaries and Wages		(22,797)	6-1					82,302	6-1a				
PERF Contribution -- 2014		9,672	6-2					9,218	6-2a				
Capital and Non-recurring Costs		(108,034)	6-3										
Johnson Controls Payment		(5,688)	6-4										
Maintenance Expense		96,724	6-5					65,650	6-5				
Street Repair Expenses		(22,605)	6-6										
O&M Expense													
Depreciation Expense	820,242	(820,242)		-			-	952,615	6-7	952,615			952,615
Amortization Expense	7,044	(7,044)	Pet	-			-						-
Taxes Other than Income													
FICA Tax	179,528	1,036	6-8	180,564			180,564	6,296	6-8a	186,860			186,860
Unemployment Tax	2,119			2,119			2,119			2,119			2,119
Utility Receipts	100,708	4,111	6-9	104,819	22,176	1A	126,995			126,995	26,864	1A	153,859
PILT	215,554	(215,554)		-			-	476,737	6-10	476,737			476,737
Total Operating Expenses	<u>7,804,621</u>	<u>(1,090,421)</u>		<u>6,714,200</u>	<u>22,176</u>		<u>6,736,376</u>	<u>1,592,818</u>		<u>8,329,194</u>	<u>26,864</u>		<u>8,356,058</u>
Net Operating Income	<u>\$ (282,519)</u>	<u>\$ 1,165,026</u>		<u>\$ 882,507</u>	<u>\$ 1,561,795</u>		<u>\$ 2,444,302</u>	<u>\$ (1,592,818)</u>		<u>\$ 851,484</u>	<u>\$ 1,892,013</u>		<u>\$ 2,743,497</u>

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Revenue Adjustments

(1)

Residential Customer Growth

To adjust "Metered Residential Sales" for actual residential customers as of June 2014.

Residential Customer Count at June 30, 2014	19,979	
Times: 12 months		12
<i>Pro forma</i> Annual Residential Billings	239,748	
Times: Average Test Year Residential Bill	\$ 18.074	
<i>Pro forma</i> Residential Revenues		4,333,205
Less: Test Year Residential Revenues		<u>(4,376,933)</u>
Adjustment Increase (Decrease)		<u>\$ (43,728)</u>

<i>Total Test Year Residential Revenues</i>	4,376,933
<i>Total Test Year Residential Billings</i>	242,168
<i>Average Test Year Residential Bill</i>	<u>\$ 18.074</u>

(2)

Industrial Post-Test Year Customer Growth

To adjust Industrial sales revenues to reflect increased usage by industrial customers after the end of the test year.

<i>Pro forma</i> increase to Annual Industrial Consumption (100s of cubic feet)	111,320
Times: Water Consumption Rate (Fifth Rate Block)	<u>\$ 1.063</u>
Adjustment Increase (Decrease)	<u>\$ 118,333</u>

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

(1)

Salaries and Wages

To adjust "Operation and Maintenance Expenses" for *pro forma* salaries and wages as of June 2014.

Test Year Salaries and Wages Expense	\$ 2,383,112
Add: Salary increase approved for water superintendent (February 2014)	46,030
Less: Reduced allocation of city personnel	<u>(68,827)</u>
Net <i>Pro forma</i> Salaries and Wages Expense	2,360,315
Less: Test Year Salaries and Wages	<u>2,383,112</u>
Adjustment Increase (Decrease)	\$ <u>(22,797)</u>

(1a)

Salaries and Wages - Phase II

To adjust *pro forma* salaries and wages in Phase II to reflect wage increase in 2014.

Net <i>Pro forma</i> Salaries and Wages Expense - Phase I	\$ 2,360,315
Times: Estimated 2014 Pay Increase	<u>3.4869%</u>
<i>Pro forma</i> Increase in Salaries and Wages Expense - Phase II	<u>\$ 82,302</u>
Adjustment Increase (Decrease)	\$ <u>82,302</u>

(2)

PERF

To adjust operating expenses for the calculated annual PERF expense based on Net *Pro forma* salaries and wages expense.

Net <i>Pro forma</i> Salaries and Wages	\$ 2,360,315
Times: 2014 PERF Contribution Rate	<u>11.20%</u>
<i>Pro forma</i> PERF Expense	264,355
Less: Test Year PERF Expense	<u>(254,683)</u>
Adjustment Increase (Decrease)	\$ <u>9,672</u>

(2a)

PERF - Phase II

To adjust operating expenses for the calculated annual PERF expense based on Net *Pro forma* salaries and wages expense in Phase II.

<i>Pro forma</i> Increase in Salaries and Wages Expense - Phase II	\$ 82,302
Times: 2014 PERF Contribution Rate	<u>11.20%</u>
Adjustment Increase (Decrease)	\$ <u>9,218</u>

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

(3)

Capital, Non-recurring, and Out-of-Period Costs

To adjust "Operation and Maintenance Expenses" for costs that are non-recurring, incurred outside the test period, or capital in nature.

<u>Vendor</u>	<u>Capital?</u>	<u>Description</u>	<u>Account</u>	
Crowe Horwath	Deferred	Professional Services	Other Contract Services	\$ (9,575.00)
Crowe Horwath	Deferred	Rate Study	Reg Comm Exp	(28,952.75)
Robert Curry	Yes	Engineering services for new VFD high service pump at Lafayette water treatment plant	Maint Materials and Supplies	(4,335.00)
Frost Brown Todd	Deferred	Professional Services		(3,300.00)
Information Systems	Yes	GIS Conversion		(18,000.00)
Bastin Logan	Yes	Elder St. #2 well pump replacement	Maintenance	(23,596.04)
Anderson Municipal Electric	No	Damage incurred in 2012 recorded in March 2013	Other Repair Services	(1,561.88)
Anderson Municipal Electric	No	Damage incurred in 2012 recorded twice during the test year in error	Other Repair Services	(1,561.88)
				<u>\$ (90,883)</u>
		<u>Test Year</u>	<u>Amortization Period</u>	<u>Annual Expense</u>
Collaboration Unlimited		(25,725.71)	3	8,575 (17,151)
		Utilities Operation Management Review - Portion Allocated to Water		
		Adjustment Increase (Decrease)		<u><u>\$ (108,034)</u></u>

(4)

Johnson Controls Measurement, Verification, and Consultation Services Contract

To adjust "Operation and Maintenance Expenses" to reflect *pro forma* payment to Johnson Controls under the Measurement, Verification, and Consultation Services Contract.

	<u>Payment to Johnson Controls</u>	<u>Water Utility's Share</u>	
2013	\$ 123,069	55.00% \$ 67,688	
2014	112,728	55.00% 62,000	
<i>Pro forma</i> Johnson Controls Payment - 2014 Payment per Contract			\$ 62,000
Less: Test Year Johnson Controls Payment			<u>67,688</u>
		Adjustment Increase (Decrease)	<u><u>\$ (5,688)</u></u>

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

(5)

Maintenance Expense

To adjust "Operation and Maintenance Expenses" for recurring *pro forma* annual maintenance expenses.

Well Cleaning Expenses

	<u>Date</u>	<u>Vendor</u>	<u>Voucher</u>		
Wellborn	1/24/2013	Bastin Logan	80545	\$	10,443.07
Hall	6/11/2013	Bastin Logan	82831		18,915.00
Srackengast	6/18/2013	Bastin Logan	82923		14,575.00
Tucker	7/5/2013	Bastin Logan	83162		7,157.50
Elder St. #1	7/25/2013	Bastin Logan	83488		8,932.50
Elder St. #2	11/21/2013	Bastin Logan	85525		20,985.00
					<u>81,008.07</u>
Test Year Well Cleaning Expense					81,008.07
Divide by Six (6)					<u>6</u>
Average cost of well cleaning during test year					13,501.35
Times: Number of wells					<u>11</u>
<i>Pro forma</i> Well Cleaning Expense					148,515
Divide by Three (3) Years					<u>3</u>
<i>Pro forma</i> Annual Well Cleaning Expense					49,505
Less: Test Year Well Cleaning Expense					<u>(81,008)</u>
Well Cleaning Adjustment				\$	(31,503)

<i>Total Wells - Current (including new Rock Well)</i>	18
<i>Less: Ranney Wells to be abandoned</i>	(4)
<i>Less: Wells to be abandoned</i>	<u>(3)</u>
<i>(Jarrett, Norton 1, and Norton 2)</i>	
<i>Total Wells to be Cleaned</i>	<u>11</u>

Tank Painting Expenses

	<u>Capacity</u>	<u>Maintenance</u>	<u>Painting</u>	<u>Total</u>
8th Street Tank	500,000	\$ 51,700	\$ 432,180	\$ 483,880
E. 10th St. Tanks	500,000	76,400	275,748	352,148
Fairview St. Tank	1,000,000	70,950	473,840	544,790
Columbus Ave. Tank	1,000,000	100,450	491,624	592,074
Range6ine Rd Tank	1,000,000	95,550	477,571	573,121
Cross St. Tank	500,000	76,400	314,174	390,574
<i>Pro forma</i> Tank Painting Costs		<u>471,450</u>	<u>2,465,137</u>	<u>2,936,587</u>
Divided by 15 Years				15
<i>Pro forma</i> Annual Tank Painting Costs				<u>195,772</u>
Less: Test Year Tank Painting Costs				<u>(1,895)</u>
Tank Painting Adjustment				<u>193,877</u>

- *Costs per Cause No. 42914, Petitioner's Schedule E-1 (most recent information available)*
- *"Maintenance" includes costs for evaluation, specifications, bid assist, contract administration, inspection, lab, and first anniversary.*

Adjustment Increase (Decrease)	\$ 162,374
Phase I Maintenance Expense Adjustment	\$ 96,724
Phase II Maintenance Expense Adjustment	\$ 65,650

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Expense Adjustments

(6)

Street Repairs

To adjust "Operation and Maintenance Expenses" to reflect annual street repair expenses.

<u>P.O. #</u>	<u>Invoice Date</u>	<u>Voucher #</u>	<u>Invoice Total</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
461	01.08.13	80319	\$ 36,283.01	\$ 36,283.01	\$ -	\$ -
2169	07.19.13	83372	36,240.85	2,110.60	34,130.25	-
2169	07.19.13	83372	9,627.20	9,627.20	-	-
3444	12.03.13	85598	45,214.57	-	45,214.57	-
Sub-total - Test Year Invoices			<u>127,365.63</u>	<u>48,020.81</u>	<u>79,344.82</u>	<u>-</u>
1680	05.19.14	88922	18,970.10	-	2,906.00	16,064.10
1680	05.19.14	88922	24,990.97	-	24,990.97	-
2728	09.05.14	90149	3,058.00	-	3,058.00	-
2728	09.05.14	90149	31,320.40	-	-	31,320.40
Total Street Repair Services Invoices Provided			<u>\$ 205,705.10</u>	<u>\$ 48,020.81</u>	<u>\$ 110,299.79</u>	<u>\$ 47,384.50</u>

Pro forma Street Cut Expense - Street Department	\$ 110,299.79
Less: Test Year Street Cut Expense - Street Department	<u>(127,365.63)</u>
	\$ (17,065.84)
Less: 2012 Adjustment recorded during the test year	<u>(5,539.27)</u>
Adjustment Increase (Decrease)	<u>\$ (22,605.11)</u>

Anderson Street Department	\$ 127,365.63
Irving Materials (paving stone)	3,923.10
E&B Paving	13,642.27
Vendor 6914	288.00
2012 Adjustment (13592)	5,539.27
Other Miscellaneous	(455.43)
Test Year Street Repair Services	<u>\$ 150,302.84</u>

(7)

Depreciation Expense

To adjust Depreciation Expense to reflect a 2% composite depreciation rate.

	<u>Petitioner</u>	<u>Settlement</u>
Utility Plant in Service	\$ 48,085,230	\$ 48,085,230
Add: Capital costs expensed during the test year	-	45,931
Construction Work in Progress	243,459	-
Less: Transportation Equipment	(823,518)	-
Land and Land rights	<u>(500,390)</u>	<u>(500,390)</u>
Depreciable Utility Plant in Service	47,004,781	47,630,771
Times: Depreciation Rate	2%	2%
Pro Forma Depreciation Expense	940,096	952,615
Add: Deprecation on Transpiration Equipment	82,352	-
Pro Forma Depreciation Expense	<u>\$ 1,022,448</u>	<u>952,615</u>
Less: Test Year Depreciation Expense		<u>820,242</u>
Adjustment Increase (Decrease)		<u>\$ 132,373</u>

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

**(8)
FICA**

To adjust Taxes Other Than Income Taxes to recalculate FICA for *pro forma* salaries.

Net <i>Pro forma</i> Salaries and Wages (see adjustment (1) above)	\$ 2,360,315
Times: FICA Rate	7.65%
<i>Pro Forma</i> FICA Expense	<u>180,564</u>
Less: Test Year FICA Expense	<u>(179,528)</u>
Adjustment Increase (Decrease)	<u>\$ 1,036</u>

**(8a)
FICA - Phase II**

To adjust Taxes Other Than Income Taxes to recalculate FICA for *pro forma* salaries in Phase II.

<i>Pro forma</i> Increase in Salaries and Wages Expense - Phase II (See adjustment (1a) above)	\$ 82,302
Times: FICA Rate	<u>7.65%</u>
Adjustment Increase (Decrease)	<u>\$ 6,296</u>

**(9)
Utility Receipts Tax**

To adjust Taxes Other Than Income Taxes to recalculate the utility receipts tax.

<i>Pro forma</i> Present Rate Revenues	\$ 7,596,707
Less: Sales for Resale	-
Exemption	(333)
Bad Debt Expense	<u>(109,335)</u>
Taxable Revenues	\$ 7,487,039
Times: Utility Receipts Tax Rate	1.40%
<i>Pro forma</i> Utility Receipts Tax expense	<u>104,819</u>
Less: Test year Utility Receipts Tax Expense	<u>(100,708)</u>
Adjustment Increase (Decrease)	<u>\$ 4,111</u>

**CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510**

Expense Adjustments

**(10)
PILT**

To adjust Taxes Other Than Income Taxes for the payment in lieu of property taxes.

	<u>Petitioner</u>	<u>Settlement</u>
Utility Plant in Service	\$ 48,085,230	\$ 48,085,230
Plus: Capital costs expensed during the test year <i>(Note A)</i>	-	18,000
Less: Lafayette Treatment Plant located outside the municipal boundaries	-	(1,717,795)
Less: Lafayette well field located outside the municipal boundaries	-	(1,049,086)
Construction Work in Progress (allowed in the calculation of Property Tax at 10% of value)	243,459	-
Total Utility Plant in Service	<u>48,328,689</u>	<u>45,336,349</u>
Accumulated Depreciation	(24,767,486)	(24,767,486)
Less: Lafayette Treatment Plant located outside the municipal limits	-	984,158
Less: Lafayette well field located outside the municipal limits	-	453,939
Total Accumulated Depreciation	<u>(24,767,486)</u>	<u>(23,329,389)</u>
Net Taxable Utility Plant in Service	23,561,203	22,006,960
Times: Net Property Tax Rate (per \$100 assessed value)	2.1663	0.02
<i>Pro forma</i> Contribution in Lieu of Property Taxes	<u>\$ 510,406</u>	<u>476,737</u>
Less: Test Year PILT		<u>(215,554)</u>
		<u>\$ 261,183</u>

Note A: Did not include costs related to the Lafayette well field or treatment plant since these assets are located outside the municipal boundaries and, therefore, are not subject to PILT.

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Calculation of Working Capital

	Petitioner	Settlement	
	Proposed	Phase I	Phase II
Operation & Maintenance Expense	\$ 6,685,525	\$ 6,426,698	\$ 6,583,868
Taxes other than Income Taxes	289,722	-	-
Payments in Lieu of Property Taxes	510,406	-	-
Less: Purchased Power	-	(686,564)	(686,564)
Adjusted Operation & Maintenance Expense	<u>7,485,653</u>	<u>5,740,134</u>	<u>5,897,304</u>
Times: 60 Day Factor	16.67% ^(A)		
45 Day Factor		12.50%	12.50%
Working Capital Revenue Requirement	1,247,608	717,517	737,163
Add: Interdepartmental Loan	1,000,000	1,000,000	1,000,000
Less: Cash on Hand	<u>-</u>	<u>-</u>	<u>(981,438)</u>
Net Working Capital Revenue Requirement	2,247,608	1,717,517	755,725
Divide b Amortization Period (Years)	<u>2</u>	<u>1.75</u>	<u>1</u>
Annual Working Capital Revenue Requirement	<u>\$ 1,123,804</u>	<u>\$ 981,438</u>	<u>\$ 755,725</u>

^(A) 60 Day Factor (360/60) = 16.67%

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Debt Service Requirement

<u>Year</u>	<u>Current</u>			<u>Proposed</u>		<u>Total</u>	
	<u>2007 Bonds</u>	<u>2006 Capital Lease</u>	<u>Sub-total</u>	<u>2015 Bond</u>			
2014	\$ 397,752	\$ 690,758	\$ 1,088,510	\$ -	\$ 1,088,510		
2015	397,978	690,758	1,088,736	415,921	1,504,657		Phase I
2016	397,778	690,758	1,088,536	935,643	2,024,179		
2017	397,152	690,758	1,087,910	940,593	2,028,503		
2018	401,102	690,758	1,091,860	944,155	2,036,015		
Average 2016-2018	398,677	690,758	1,089,435	940,130	2,029,565		Phase II

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Amortization Schedule of Proposed 2015 Waterworks Revenue Bonds

<u>Date</u>	<u>Principal</u>	<u>Interest Rate (1)</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Total</u>
7/1/2015			\$ 200,600	\$ 200,600	
1/1/2016			215,321	215,321	\$ 415,921
7/1/2016			215,321	215,321	
1/1/2017	\$ 505,000	1.00%	215,321	720,321	935,643
7/1/2017			212,796	212,796	
1/1/2018	515,000	1.25%	212,796	727,796	940,593
7/1/2018			209,578	209,578	
1/1/2019	525,000	1.60%	209,578	734,578	944,155
7/1/2019			205,378	205,378	
1/1/2020	535,000	1.90%	205,378	740,378	945,755
7/1/2020			200,295	200,295	
1/1/2021	550,000	2.20%	200,295	750,295	950,590
7/1/2021			194,245	194,245	
1/1/2022	570,000	2.50%	194,245	764,245	958,490
7/1/2022			187,120	187,120	
1/1/2023	590,000	2.80%	187,120	777,120	964,240
7/1/2023			178,860	178,860	
1/1/2024	610,000	2.95%	178,860	788,860	967,720
7/1/2024			169,863	169,863	
1/1/2025	635,000	3.05%	169,863	804,863	974,725
7/1/2025			160,179	160,179	
1/1/2026	665,000	3.15%	160,179	825,179	985,358
7/1/2026			149,705	149,705	
1/1/2027	690,000	3.20%	149,705	839,705	989,410
7/1/2027			138,665	138,665	
1/1/2028	720,000	3.30%	138,665	858,665	997,330
7/1/2028			126,785	126,785	
1/1/2029	755,000	3.35%	126,785	881,785	1,008,570
7/1/2029			114,139	114,139	
1/1/2030	790,000	3.40%	114,139	904,139	1,018,278
7/1/2030			100,709	100,709	
1/1/2031	825,000	3.45%	100,709	925,709	1,026,418
7/1/2031			86,478	86,478	
1/1/2032	865,000	3.50%	86,478	951,478	1,037,955
7/1/2032			71,340	71,340	
1/1/2033	915,000	3.60%	71,340	986,340	1,057,680
7/1/2033			54,870	54,870	
1/1/2034	955,000	3.65%	54,870	1,009,870	1,064,740
7/1/2034			37,441	37,441	
1/1/2035	985,000	3.70%	37,441	1,022,441	1,059,883
7/1/2035			19,219	19,219	
1/1/2036	1,025,000	3.75%	19,219	1,044,219	1,063,438
	<u>\$ 14,225,000</u>		<u>\$ 6,081,889</u>	<u>\$ 20,306,889</u>	

3 Year Average debt service (2016 - 2018) \$ 940,130

Maximum debt service \$ 1,064,740

(1) Estimated interest rates based upon October 10, 2014, Municipal Market Data Data-Line using "A" rates plus 50 basis points. Interest rates subject to change.

CITY OF ANDERSON MUNICIPAL WATER UTILITY
Cause No. 44510

Proposed Waterworks 2015 Revenue Bonds
Estimated Sources and Uses of Funds

	<u>Petitioner</u>	<u>Settlement ⁽¹⁾</u>	<u>Settlement More (Less)</u>
<u>Sources of Funds:</u>			
Par Amount of Bonds	\$ 14,270,000	\$ 14,225,000	\$ (45,000)
<u>Uses of Funds:</u>			
Lafayette Well Field	\$ 9,843,500	\$ 9,843,500	\$ -
Wheeler Bypass	594,000	594,000	-
Homewood Distribution System	1,544,622	1,544,622	-
Hydrological Studies	810,000	810,000	-
Debt Service Reserve	1,110,648	1,064,740	(45,908)
IURC Fee	35,675	35,563	(112)
Underwriter's Discount	142,700	142,250	(450)
Other Costs	188,000	188,000	-
Rounding	855	2,325	1,470
Total	\$ 14,270,000	\$ 14,225,000	\$ (45,000)

(1) Revised for reduced interest rates, debt service reserve, and other variable non-construction costs

Highlighted lines indicate variable components that change as the amount of debt changes.

AFFIRMATION

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



Margaret A. Stull
Indiana Office of Utility Consumer Counselor

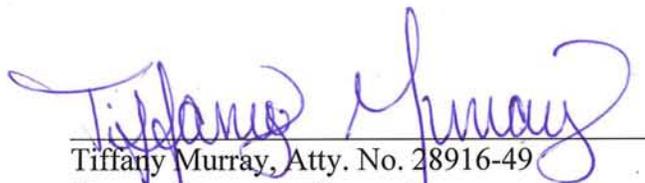
November 25, 2014
Date

Cause No. 44510
Anderson Municipal Water

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *OUCC Settlement Testimony of Margaret A. Stull - Public's Exhibit No. 2* has been served upon the following counsel of record in the captioned proceeding by electronic service on November 25, 2014.

Robert L. Hartley
Kyle J. Hupfer
Beau F. Zoeller
FROST BROWN TODD LLC
201 North Illinois Street, Suite 1900
Indianapolis, IN 46204
rhartley@fbtlaw.com
khupfer@fbtlaw.com
bzoeller@fbtlaw.com


Tiffany Murray, Atty. No. 28916-49
Deputy Consumer Counselor

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR
115 West Washington Street
Suite 1500 South
Indianapolis, IN 46204
infomgt@oucc.in.gov
317/232-2494 – Phone
317/232-5923 – Facsimile