

## **Memorandum**

**To:** Chairman Huston

**From:** E. Curtis Gassert, Water/Wastewater Division Director

**Date:** December 21, 2020

**Re:** Summary Results of Periodic Review for Calendar Year 2019

Indiana Code § 8-1-2-42.5 requires the Commission to conduct a review of the basic rates and charges of all public, municipally owned, and cooperatively owned utilities. Utilities serving less than 8,000 customers are exempt from such a review as described in Indiana Code § 8-1-2-61.5.

Additionally, Indiana Code § 8-1-2-16 requires that a utility's accounting books and records be closed on the last day of December with the balance sheet and other information prescribed by the Commission filed on or before April 30 of the following calendar year. The Commission's administrative rules (170 IAC) prescribe the accounting and reporting requirements adopted by the Commission for each industry.

The Commission's Water/Wastewater Division conducted the periodic review as described in the Commission's GAO 2018-01 ("GAO"). Part of this process is a Level 1 review, and if necessary, further review is conducted in Level 2. The Water/Wastewater Division Staff analyzes the rate of return experienced by the utilities and what the utilities have been authorized to earn through Commission Orders for the investor-owned utilities. For the municipal and not-for-profit utilities, the actual operating revenue is compared to the authorized operating revenues. The primary threshold for a Level 1 review, depending on the utility type, is if the actual return (i.e., investor-owned utilities) or actual operating revenue (i.e., municipally-owned, not-for-profit, and cooperatively-owned) exceeds authorized return or authorized revenue by 10% or more.

Data contained in the utility's annual report provided to the Commission was utilized by the Water/Wastewater Division to conduct a periodic review for the following water utilities:

1. Anderson Water Utility
2. Aqua Indiana, Inc.
3. Bloomington Water Utility
4. Citizens Water
5. Citizens Water of Westfield
6. Columbus Municipal Water
7. Elkhart Municipal Water
8. Evansville Municipal Waterworks
9. Fort Wayne Water Utility
10. Indiana-American Water

11. Lafayette Municipal Water Works
12. Marion Municipal Utilities
13. Michigan City Department of Waterworks
14. Town of Schererville Water
15. South Bend Water Works

The following water utilities exceeded the Level 1 thresholds as prescribed in the GAO and are subject to a Level 2 review:

1. Columbus Municipal Water
2. South Bend Water Works

Data contained in the annual reports provided to the Commission was utilized by the Water/Wastewater Division Staff to conduct a periodic review of the following wastewater utilities:

1. Aqua Indiana
2. CWA Authority
3. Citizens Wastewater of Westfield
4. Hamilton Southeastern Utilities

The following wastewater utility exceeded the Level 1 thresholds as prescribed in the GAO and are subject to a Level 2 review:

1. Hamilton Southeastern Utilities.<sup>1</sup>

The Commission's Water/Wastewater Division staff conducted a Level 2 review, which includes the collection of data and information beyond that contained in the utility's most recent annual report. In some instances, this may have included an informal meeting or calls with the utility to determine if there are adjustments or other circumstances not sufficiently reflected in the annual report information already reviewed by the Commission. Staff concluded the two water utilities passed the Level 2 reviews. A brief explanation is provided for each utility.

1. Columbus Municipal Water: The Level 1 threshold was exceeded by 9.18% based on staff's comparison of authorized revenues (\$4,099,664) approved in Cause No. 39425 (8/12/92 and 3/29/94) compared to actual revenues reported in calendar year 2019 (\$4,886,008). However, over the same time frame staff notes that while Columbus paid off its debt, O&M expenses had increased by more than 57% and its extensions and replacements on average from 2016 – 2019 had increased by more than 17%. When these factors are considered, Columbus reports a 7.57% surplus in current revenues over current costs, which falls below the Level 1 threshold of actual revenues exceeding authorized revenues by more than 10%. On October 8, 2020, Columbus filed a petition to increase its rates. Staff concludes that Columbus passes the Level 2 review.
2. South Bend Water Works: The Level 1 threshold was exceeded by 2.83% based on staff's comparison of authorized revenues (\$17,785,890) approved in Cause No. 44951 (3/7/18) compared to actual revenues reported in calendar year 2019 (\$20,068,485). South Bend's

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<sup>1</sup> Hamilton Southeastern Utilities, Inc. has a pending case, Cause No. 45032-S16. Once the case is concluded and the Commission has a non-appealable order, staff will complete its Level 2 review.

phase two rates became effective March 8, 2019. A letter was sent to the utility on September 1, 2020 requesting additional information to complete staff's Level 2 review. On September 9, 2020, South Bend responded that they had an input error for debt service reserve, and they failed to include the revenue and income offsets to other operating revenue. When these adjustments are made, South Bend falls outside the parameters of a Level 2 review.

The Water/Wastewater Division will continue to monitor the financial health of jurisdictional utilities in the future.