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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF JACKSON COUNTY )  
WATER UTILITY, INC., FOR ) CAUSE NO. 44986  
AUTHORITY TO ISSUE LONG TERM )  
DEBT AND CHANGES TO ITS RATES, ) APPROVED: APR 17 2019  
CHARGES, AND TARIFF )

PHASE II ORDER OF THE COMMISSION

**Presiding Officers:**

**James F. Huston, Chairman**

**Brad J. Pope, Administrative Law Judge**

On September 21, 2017, Jackson County Water Utility, Inc. ("Petitioner") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") seeking authority to issue long-term debt through a Phase I proceeding and to change its rates, charges, and tariff through a Phase II proceeding. Petitioner prefiled its Phase I Case-in-Chief on September 21, 2017, consisting of the testimony and exhibits of its witnesses Larry W. McIntosh, Lori A. Young, and Earl L. Ridlen III.

The Commission held a Prehearing Conference in this Cause on October 24, 2017, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington St., Indianapolis, Indiana. Petitioner and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively, the "Parties") appeared and participated, and the publication of the notices of the Prehearing Conference were incorporated into the record and placed in the official files of the Commission. During the Prehearing Conference, Petitioner and the OUCC discussed procedural matters indicating agreement as to the procedural schedule to be used for Phase I and indicating that further discussions would be held on a proposed procedural schedule for Phase II. Based on the agreement of the Parties, the Commission issued its Prehearing Conference Order on November 8, 2017.

On December 20, 2017, the OUCC filed its Case-in-Chief on Phase I. On January 10, 2018, Brown County Water Utility, Inc. ("Brown County") sought to intervene in these proceedings and such intervention was granted without objection. On January 30, 2018, the Commission held an Evidentiary Hearing in the Phase I proceeding. The prefiled testimony of Petitioner and the OUCC were admitted into the record without objection. On February 21, 2018, the Commission entered its Order in Phase I granting Petitioner the authority to issue long-term debt up to the maximum amount of \$7,500,000 for a maximum term of 35 years at an average interest rate not to exceed 2.80%. Petitioner was also ordered to file information on the actual terms obtained from its lender within 60 days following closing.

Petitioner was also authorized to initiate its base rate case as the Phase II portion of these proceedings using a test year of December 31, 2017, as adjusted for fixed, known, and measurable changes occurring within the succeeding 12 months of the test year. Pursuant to the Commission's Order, Petitioner issued long-term debt on August 16, 2018, in the amount of \$6,680,000 in bonds,

at an interest rate of 2.30%, for a term of 35 years. Petitioner filed its long-term debt report with the Commission under this Cause on September 14, 2018.

Based on the Parties' agreement regarding the Phase II procedural schedule, Petitioner filed its Phase II direct case on July 27, 2018, consisting of the testimony and exhibits of its witnesses Larry W. McIntosh, Lori A. Young, and Earl L. Ridlen, III. The OUCC filed its Case-in-Chief in this Phase II on November 8, 2018 consisting of the testimony of Edward R. Kaufman, Richard J. Corey, and Carl N. Seals. On November 29, 2018, Petitioner filed the Rebuttal Testimony and Exhibits of Earl L. Ridlen, III. On December 12, 2018, Petitioner filed its Response to the Commission's December 7, 2018 Docket Entry.

The Commission held the Phase II Evidentiary Hearing on December 13, 2018, at 9:30 a.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner, the OUCC, and Brown County appeared by counsel, and Petitioner and the OUCC offered their respective prefiled testimony and exhibits, which were admitted into the record without objection.

The Commission, based on the applicable law and evidence of record, now finds:

1. **Notice and Jurisdiction.** Due, legal, and timely notice of these proceedings was given and published as required by law. Petitioner is a public utility as defined in Ind. Code § 8-1-2-1 and a not-for-profit utility as defined in Ind. Code § 8-1-2-125. Petitioner sought Commission authority to issue long-term debt in these Phase I Proceedings and thereafter sought to change its rates, charges, and tariff in Phase II. Pursuant to Ind. Code § 8-1-2-78 and Ind. Code § 8-1-2-125 the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is a not-for-profit utility organized and existing under the laws of the State of Indiana. Petitioner provides water service to approximately 5,300 customers in both rural and municipal areas in Jackson, Jennings, Bartholomew, Brown, and Lawrence Counties, Indiana.

3. **Existing Rates, Test Year, and Relief Requested.** The Commission established Petitioner's current rates and charges by its Order in Cause No. 44461 on December 9, 2015. Through its prefiled direct case in the Cause, Petitioner sought to increase its current rates by 5.73% in order to provide additional revenue of \$201,135. In Petitioner's rebuttal case and based on new information regarding health insurance costs, it proposed to increase its rates by 6.45% in order to provide additional revenue of \$226,555. As noted above, the test year for Phase II is the 12 months ending December 31, 2017, adjusted for changes that are fixed, known, measurable, and occurring within 12 months following the end of the test year.

4. **Petitioner's Direct Evidence.** Petitioner's Phase II Case-in-Chief was filed on July 27, 2018, and consisted of the testimony and exhibits of Larry W. McIntosh, Petitioner's General Manager; Lori A. Young, Petitioner's Engineer; and Earl L. Ridlen, III, Petitioner's Accountant and Financial Advisor.

Mr. McIntosh explained that he had worked directly with Ms. Young and Mr. Ridlen to develop a plan for extending water mains into unserved portions of Petitioner's service area. This plan led Mr. McIntosh, Ms. Young, and Mr. Ridlen to seek financing from the Indiana Financing

Authority's State Revolving Fund ("SRF"), which was the basis of Phase I. Mr. McIntosh stated that Petitioner's Board of Directors are elected, are actively involved in managing Petitioner, and are customers of Petitioner themselves. He explained that the Board considered Mr. Ridlen's proposed rate increase based on Petitioner's needed revenue and ultimately agreed with the recommendation. Mr. McIntosh noted that Petitioner had separately provided notice of Phase I and Phase II to its customers, none of which objected to the extension of facilities under Phase I nor the rate increase under Phase II.

Mr. McIntosh addressed a proposed change in Petitioner's rules and regulations contained in its tariff. He noted that Petitioner's Board was concerned that some of their customers may have difficulty paying the current tap fee when they become connected to Petitioner's system. The Board proposed that if those customers paid \$600 at the time of the tap, they could pay the remaining portion of the tap fee over a 36-month period as part of their monthly bill, along with all other rates and charges that applied to such customer. Mr. McIntosh also addressed the OUCC's recommendation in Phase I that Petitioner consider a system development charge. He indicated that after consideration, the Board decided that it was unnecessary based in part on Petitioner's history of borrowing funds to make facility improvements and then including the repayment of such borrowing in the rates charged to all customers. He indicated that the Board believed that all customers benefit by the existing facilities that have been built over time and that Petitioner's capacity in its current facilities was designed for customer growth. Ultimately, the Board decided not to propose a system development charge at this time.

Ms. Young offered testimony in support of Petitioner's proposed revenue requirement. She described Petitioner's current water facilities and explained that they are sufficient to meet the needs of its current customers and the needs of the new customers in the area in which extension of mains are now occurring following the Commission's approval in Phase I. She noted that the water production and treatment capacity currently being used is approximately 57%. Thus, new customers, including those described in Phase I, will help Petitioner better use its existing capacity. She stated that all of Petitioner's facilities will also be used for the new customers and that the new customers will be connecting to Petitioner's existing mains. Ms. Young explained that \$6,680,000 of long-term debt was borrowed from SRF for the new project and that it has been bid, easements have been acquired, and construction has begun. She explained that both current and new customers will benefit from the useful life of the improvements described in the Phase I proceeding. As such, Ms. Young opined that the revenue requirement proposed by Mr. Ridlen is appropriate and should provide sufficient funds to complete the project described in Phase I and to repay SRF.

Mr. Ridlen offered testimony explaining the status of the long-term debt financing. His testimony filed in July 2018 noted that Petitioner expected to close its loan with SRF before the end of August of 2018. Mr. Ridlen's testimony indicated that he had prepared a revenue requirement based on repaying SRF. He explained that he had assumed the principal amount of \$6,680,000, at an interest rate of 2.30%, for a loan period of 35 years in his revenue requirement. He also noted that he proposed to true up the revenue requirement following Petitioner's review of positions taken by the OUCC and Brown County with which Petitioner agreed. Mr. Ridlen explained that he and his firm had audited Petitioner's books and records for the calendar year ending December 31, 2017. Based on that audit, Petitioner presented exhibits which reflect Petitioner's rate revenue should be increased in order to repay SRF and provide sufficient revenue

to meet Petitioner's operating expenses. Mr. Ridlen then described all of the adjustments that he had made to Petitioner's test-year books and records and presented the adjustments in Exhibit ELR-1, admitted into the Record as Petitioner's Exhibit No. 10. In recognition of Petitioner's cash revenue requirements, Mr. Ridlen indicated that as of the filing of his July 2018 testimony, Petitioner needed to increase its rates by 5.73% in order to produce an additional \$201,135. On September 14, 2018, Petitioner filed its long-term debt report which confirmed the amount borrowed, the interest rate incurred, and the time period for which such borrowing from SRF would be outstanding. The report also confirmed the assumptions used by Mr. Ridlen for the SRF debt included in his proposed revenue requirement.

**5. The OUCC's Direct Evidence.** The OUCC presented testimony in Phase II through various witnesses, including Richard R. Corey, Carl N. Seals, and Edward R. Kaufman. Mr. Corey explained that he had reviewed Petitioner's books and records, Petitioner's Annual Reports, the Commission's Order in Petitioner's last rate case (Cause No. 44461), and Petitioner's prefiled evidence and exhibits. Mr. Corey also explained that he had completed a field audit on September 6 and 7, 2018. Based on this review, Mr. Corey explained that the OUCC accepted a number of Petitioner's adjustments to its test year. The OUCC accepted Petitioner's adjustment to operating revenue based on its anticipated growth of customers and historical water usage. The OUCC accepted Petitioner's adjustment to operating expenses for salaries and wages, employee benefits, payroll taxes, pension expense, rate case expense, and the Indiana Department of Environmental Management ("IDEM") fee. Mr. Corey explained that he had adjusted Petitioner's proposed IURC fee based on the OUCC's proposed pro forma revenue and the more current IURC fee. Mr. Corey explained that he proposed to eliminate from test year adjustments related to celebrations and employee gifts which would reduce test year operating expenses by \$1,686. Mr. Corey explained that he had not adjusted Petitioner's proposed extensions and replacement funding based on Mr. Seals' recommendation, and the fact that such revenue requirement is equal to the amount approved for Petitioner in its last rate case, Cause No. 44461. Finally, Mr. Corey explained that the overall proposed increase had been reduced by the OUCC based on Mr. Kaufman's recommendation for debt service and debt service reserve. He then recommended that the Commission authorize a 2.52% increase in operating revenues, on an across-the-board basis, to provide Petitioner the opportunity to collect \$3,598,548 in net revenues.

Mr. Seals explained his review of Petitioner's Case-in-Chief, Petitioner's last case, Cause No. 44461 – Phase II, and Petitioner's proposed changes to its tariff. With respect to Petitioner's proposed continuance of funding of extensions and replacements as included in Petitioner's last case, Mr. Seals agreed with such approach. He noted that only three years had passed since Petitioner's last rate order and that Petitioner was continuing to complete the capital projects included in the extensions and replacements revenue requirement of that case. Mr. Seals further noted that based on his calculations, excluding Contributions in Aid of Construction, Petitioner's 2016 and 2017 additions to Utility Plant totaled \$551,499 and \$526,623, respectively, compared to the proposed \$458,000 recovery through the extensions and replacements revenue requirement. Therefore, he believed continuing to include extensions and replacements in the revenue requirement of this case as proposed by Petitioner was appropriate. With respect to tariff changes, Mr. Seals explained that he had considered the proposed approach by Petitioner of permitting installment payments for the tap fee after an initial payment of \$600 had been made at the time of the tap. Mr. Seals agreed that this proposal was reasonable and indicated that this installment approach would help lower the barrier for homeowners wishing to connect to Petitioner's utility.

Mr. Kaufman expressed several concerns with Petitioner's calculation of its annual debt service and debt service reserve revenue requirement included in Petitioner's proposed revenue requirement. Mr. Kaufman asserted Petitioner's request departs from good regulatory practice, which is to base the pro forma annual revenue requirement on an average debt service. He explained that setting rates based on the highest annual debt service results in rates that exceed the utility's annual revenue requirements.

Mr. Kaufman also testified that Petitioner's request to include \$74,119 in its annual revenue requirements for its proposed debt service reserve should be rejected. He noted that the five-year average annual debt service for Petitioner's combined loans, including its new SRF debt, is \$1,123,889. Mr. Kaufman added that, because a rate order will not be issued until 2019, the payment due on January 1, 2019, should not be included in the five-year average. He explained that utilities that recover debt service in rates typically base their debt service revenue requirement on an average of the annual cost of debt service over a reasonable period, which is usually based on the expected life of the anticipated rates (e.g., 5 years). Mr. Kaufman explained that Petitioner's request to use the maximum annual debt service in rates, which it calculates as \$1,160,255, would result in an annual revenue requirement that is \$36,366 above the five-year average.

Mr. Kaufman stated that the Commission has expressed its belief that debt service revenue requirements should be tied to the expense to be incurred over the life of the rates. He explained that in the Commission's March 19, 2014 Order in Cause No. 44306 regarding Citizens Water's rate case ("44306 Order"), it expressed that position by stating, "The Commission believes the rates should match the actual expense incurred over the life of the rates." 44306 Order, p. 33. He stated that if Petitioner is permitted to include its maximum annual debt service in revenue requirements as proposed, Petitioner's rates would not match its actual expense over the expected life of its rates.

Mr. Kaufman also discussed Petitioner's proposal to include \$74,119 per year in its revenue requirement for the debt service reserve on its combined SRF debt. Mr. Kaufman stated that Mr. Ridlen's Exhibit F shows that Petitioner needs \$370,594.20 to fund the debt service reserve for its current debt, which includes its 2018 debt issuance. However, Mr. Ridlen's Exhibit F, Line 3 attached to Petitioner's Exhibit No. 10 shows that the debt service reserve for Petitioner's 2013 bonds is overfunded by \$378,692.50. Thus, he indicated Petitioner already has sufficient funds in its debt service reserve to meet its obligation. Mr. Kaufman stated that therefore, Petitioner does not need to include funds for debt service reserve in its revenue requirements. Mr. Kaufman said Petitioner's proposed debt service reserve should not be included as a revenue requirement.

Mr. Kaufman stated that any restriction that might prohibit using excess debt service reserve from one bond issuance to another should not be an obstacle. Mr. Kaufman explained that the funds in Petitioner's 2013 debt service reserve could be used to pay off its 2013 debt and that Petitioner's Series 2013 Notes are scheduled to be paid off in full on January 1, 2023. He added that a utility can use its debt service reserve funds to pay off a loan once the balance in the reserve account exceeds the remaining balance on the loan. Mr. Kaufman stated that a utility does not need to pay off its loan in advance but could simply recognize it has funds specifically dedicated to pay off the designated loan. Mr. Kaufman explained this is meaningful because the debt service reserve for Petitioner's 2013 Note has a balance of \$519,725 and by the time an order is issued in this Cause, the remaining balance for Petitioner's 2013 debt will be comparable at \$523,675. Thus, he asserted Petitioner already has sufficient funds in the debt service reserve associated with its 2013

note to entirely pay the loan off in 2019. Mr. Kaufman then asserted that if Petitioner used the debt service reserve for its 2013 bonds, Petitioner's revenue requirements should be reduced so that it does not include debt service for its 2013 bonds. Removing the annual debt service associated with Petitioner's 2013 bonds from its revenue requirements reduces its five-year average annual debt service by \$104,735 ( $\$523,675 / 5 = \$104,735$ ). Mr. Kaufman added that if excess debt service reserve funds are used to pay off Petitioner's 2013 debt, then Petitioner will need to include funds in its current revenue requirements for the debt service reserve for its 2018 bonds.

Mr. Kaufman also testified that the Commission should incorporate the following restrictions on Petitioner's debt service reserve. If Petitioner spends any funds from its debt service reserve for any reason other than to make the final payments on its currently outstanding debt issuances, Petitioner should be required to provide a report to the Commission and the OUCC within five business days of the transaction. The report should state how much Petitioner spent from its debt service reserve, explain why it spent funds from its debt service reserve, provide a citation to any applicable loan documents that allow it to spend funds from its debt service reserve, describe its plans to replenish its debt service reserve, and explain any cost-cutting activities it has implemented to forestall spending funds from its debt service reserve.

Finally, Mr. Kaufman noted Petitioner did not borrow the entire amount of funds that had been authorized by the Commission in Phase I, and he recommended that the Commission explicitly state that the \$820,000 of unused borrowing authority is not retained by Petitioner. Mr. Kaufman explained allowing a utility to indefinitely retain unused borrowing authority reduces transparency and prevents the OUCC and the Commission from evaluating future debt issuances.

**6. Petitioner's Rebuttal Evidence.** Petitioner's rebuttal evidence consisted of the testimony and exhibits of Mr. Ridlen. Mr. Ridlen identified certain errors made by the OUCC regarding its positions on debt service reserve, debt service, and an overall reduction in Petitioner's revenue requirement. First, Mr. Ridlen addressed the OUCC's recommendation of using funds from the debt service reserve of the 2013 bond issue for funding the debt service reserve for the new 2018 bonds. He explained that Petitioner cannot use those funds as the OUCC suggests. The loan documents for the 2013 bonds prevent the use of those funds as a reserve for new bonds. Mr. Ridlen stated that in order to ensure Petitioner's understanding of the 2013 bond documents was correct, Petitioner contacted the Trustee to determine if the funds in the debt service reserve could be used for the debt service reserve for the new 2018 debt. Mr. Ridlen explained that a representative of the trustee indicated that this was not an option for Petitioner. Thus, at the outset, Mr. Ridlen stated that the OUCC's proposal related to debt service reserve understates Petitioner's revenue requirement by \$74,119.

Next, Mr. Ridlen addressed the OUCC's recommendation on averaging debt service and its claim that the averaging approach was recognized as appropriate in the 44306 Order. Mr. Ridlen stated that by citing the 44306 Order, the OUCC failed to recognize that the Commission began its determination on averaging by criticizing the data that had been submitted by Citizens Water. The Commission then reviewed the anticipated capital expenditures that Citizens Water indicated that it would be making. The 44306 Order also referenced the limited difference in debt service between calendar years 2014 and 2015. As Mr. Ridlen explained, Petitioner is not facing the same factual situation as Citizens Water. First, Petitioner is not a municipal entity. Second, Petitioner is operated by a Board of Directors that are elected by its customers. Third, the elimination of the

payment in 2019 fails to recognize that the payment will actually be made. Fourth, Petitioner used the actual annual debt service that it will face going forward in repaying its lender. Therefore, Mr. Ridlen stated that the OUCC's recommendation of the use of an averaging technique is incorrect.

Mr. Ridlen stated that a not-for-profit utility, like Petitioner, must be allowed to collect the actual revenue requirements that will be needed to satisfy all of its obligations. Since Petitioner filed its Case-in-Chief in July of 2018, it was advised that health insurance for its employees will increase beginning December 2018, which is within the 12 months of the end of the test year. Mr. Ridlen stated that he attached the estimated cost of the health insurance increase as Exhibit ELR-2 to Petitioner's Exhibit No. 12, and he recommended that Petitioner's revenue requirement be increased by \$25,420 to recognize this additional operating expense. Based on his rejection of the OUCC's adjustment for debt service reserve and debt service and recognizing the increased health insurance costs facing Petitioner, Mr. Ridlen proposed the use of an updated revenue requirement and attached it as Exhibit ELR-3 to Petitioner's Exhibit No. 12.

Following the pre-filing of Petitioner's rebuttal evidence, the Commission posed questions to Petitioner through its December 7, 2018 Docket Entry. In Petitioner's December 12, 2018 Response, it addressed the Commission's questions that the funds held in debt service reserve for the 2013 bonds are not surplus funds and cannot be used until the debt is paid in full. Petitioner stated that funds would be returned to Petitioner in 2023 and would then be available for Petitioner for operating expenses going forward at that time. In support of this Response, Petitioner provided a copy of the First Supplemental Indenture for the 2013 bonds, specifically referenced Section 4.3 of such First Supplemental Indenture, and indicated that Mr. Ridlen was available for further questions should any additional concerns regarding funds related to the 2013 bonds exist. We note that the Response to the Commission's Docket Entry was entered into the record of evidence in this Cause.

**7. Commission Discussion and Findings.** Based on the evidence of record, the Parties agreed on the majority of the elements of the revenue requirement. The Parties also agreed with Petitioner's proposed installment of tap fee payments. The testimony of the OUCC confirmed that the OUCC agrees with Petitioner's adjustment to test year operating revenue to appropriately provide for customer growth. The OUCC's testimony also indicated that the OUCC agrees with operating expense adjustments including: salaries and wages, employee benefits, payroll tax, pension expense, rate case expense, IDEM fees, and the continuation of extensions and replacements approved in Petitioner's last case. Petitioner did not dispute the OUCC's adjustment to remove what the OUCC characterized as celebration costs and employee gifts, nor the OUCC's updated IURC fee factor in its rebuttal testimony. Thus, we accept the OUCC's adjustments. The remaining issues addressed below regard health insurance expense, debt service reserve, and debt service.

**A. Health Insurance Expense.** Mr. Ridlen explained in his rebuttal that the health insurance benefit provided to Petitioner's employees had unexpectedly increased after it filed its Case-in-Chief. As reflected in Petitioner's Exhibit No. 12, Exhibit ELR-2, Petitioner's health insurance premium increased by \$27,072. The OUCC agreed with Petitioner's health insurance expense included in its employee benefits as originally filed and offered no objections or questions about the increased health insurance cost. We find that this is a known and material adjustment that falls within 12 months of Petitioner's test year and, as such, find that the adjusted

health insurance cost should be included in Petitioner's revenue requirement.<sup>1</sup>

**B. Debt Service Reserve.** Turning to the issue of the debt service reserve, both Petitioner and the OUCC agree debt service reserve must be recognized in the revenue requirement. On behalf of Petitioner, Mr. Ridlen calculated debt service reserve for its proposed 2018 debt service issuance by determining the maximum annual debt service reserve needed, \$720,943, subtracting what Petitioner had already funded in its debt service reserve, \$350,349, to obtain \$370,594. Dividing this total by five years yields \$74,119.

The OUCC, however, disagreed that Petitioner required \$74,119 in debt service reserve because Petitioner's debt service reserve for its 2013 bonds is overfunded by \$378,693. On behalf of the OUCC, Mr. Kaufman concluded that Petitioner currently has sufficient funds in its debt service reserve and indicated that if there is a restriction that prohibits Petitioner from using its excess debt service reserve from one bond issuance to another, then the funds in its 2013 debt service reserve could be used to pay off its 2013 debt.

In its rebuttal, Mr. Ridlen indicated that use of the 2013 debt service reserve as proposed by the OUCC is not permitted pursuant to the 2013 bonds that were issued. Mr. Ridlen explained that the contractual obligations of the prior debt issuances prohibit the use of debt service reserve from the 2013 bonds to service the requirements of other debt. He indicated the requirements set forth in the loan documents related to the debt service reserve of each of the individual pieces of debt are established without respect to other debts held. In addition, the debt service reserve related to the 2013 bonds is under the control of the Trustee, who advised Petitioner that it could not use the debt service reserve funds from the 2013 bonds as proposed by the OUCC.

In Petitioner's Response to the Commission's December 7, 2018 Docket Entry, Petitioner provided a copy of the First Supplemental Indenture related to the 2013 bonds, which contemplates the debt service reserve account in Section 4.3. The Indenture states that the Trustee shall deposit \$519,725 of the Series 2013 Note proceeds to the 2013 Debt Service Reserve Account. This Indenture clearly indicates that the debt service reserve funds cannot be used for anything other than providing debt service reserve for the 2013 bonds. The Indenture also indicates that the debt service reserve funds cannot be used to make payments of principle and interest of the 2013 bonds except to the extent that the debt service account is insufficient to make payments on those bonds.

The Commission notes that Petitioner's Exhibit No. 10, Exhibit F, sponsored by Mr. Ridlen, is confusing. Under the column for 2013 Bonds, it shows Maximum Annual Debt Service of \$140,762.50, Debt Service Reserve Funded to Date (12/31/17) of \$519,725, and Remaining Debt Service to be Funded (Overfunded) of \$(378,962.50). On its face, as the OUCC indicated, it appears that the debt service reserve fund is overfunded. However, as Mr. Ridlen stated in his rebuttal and what Section 4.3 of the First Supplemental Indenture related to the 2013 Bond shows, the debt service reserve for the 2013 Bond is \$519,725, which is required to be paid. The \$140,762.50 figure is the maximum annual debt service for the last five years of the 2013 Bond, which is shown on Schedule E-3 of Petitioner's Exhibit No. 10. However, the amount of debt service reserve is based on all ten years of the 2013 Bond. Thus, what initially appears to be an

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<sup>1</sup> We note that Exhibit ELR-3 attached to Petitioner's Exhibit No. 12 reflects an adjustment of \$25,386 and not \$25,430 as Mr. Ridlen notes on page 5 of his rebuttal testimony.

overfunded account is not overfunded because Exhibit F is merely comparing two maximum annual debt service figures from the 2013 Bond: one for all ten years and one for only five years. If the column for 2013 Bonds is ignored, which the Commission should do, the annual debt service reserve funding should be \$74,119. Therefore, we find that it is appropriate to include in Petitioner's revenue requirement an annual debt service reserve of \$74,119.

**C. Calculation of Debt Service.** The next issue is the funding of debt service for the repayment of the 2018 bonds. Through its witness Mr. Ridlen, Petitioner proposed to use the maximum annual combined debt service for purposes of calculating the amount of funds that should be included in the revenue requirement, which is \$1,160,255. The OUCC opposed this calculation citing the 44306 Order and recommended using a five-year average (Years 2020-2024) to calculate annual debt service, which is \$1,123,889. In rebuttal, Mr. Ridlen explained that averaging the annual debt requirement will cause Petitioner to have a shortfall in the year of maximum annual debt service requirement (Year 2020) and that the OUCC has not proposed any way of covering such shortfall. Mr. Ridlen agreed that Petitioner's rates should be matched with actual expenses but pointed out that Petitioner must have rates sufficient to cover the actual obligations under the debt contract as recognized would be provided by the Commission's decision in Phase I of this Cause.

Mr. Ridlen explained that the 44306 Order begins its finding regarding averages by criticizing the data actually submitted by the utility. The 44306 Order went on to examine the average capital expenditures that the utility was expected to make and noted that there was little difference in the debt service requirements between calendar years 2014 and 2015. These conclusions led the Commission to the citation offered by the OUCC. However, Mr. Ridlen stated in his rebuttal that Petitioner, Jackson County Water Utility, Inc., is significantly different than the utility in the 44306 Order, Citizens Water. First, Petitioner is not a municipal utility. Second, Petitioner is operated by a Board of Directors that are actually elected by its customers. Third, eliminating the payment of January 2019 as part of the five-year average will eliminate a payment that will, in fact, be due. Fourth, Mr. Ridlen explained that its inclusion of annual debt service is what Petitioner believes it will face going forward.

We agree with Petitioner that the facts surrounding the 44306 Order and the conclusions we drew from those facts are different than the facts currently facing Petitioner. In our Phase I Order, we indicated that we would establish rates that would provide sufficient funds to Petitioner to pay this new 2018 debt. The Commission recognizes the consequences of using the five-year average as proposed by the OUCC. Based on the five-year average, Petitioner would face deficits of approximately \$36,000 in 2020, \$33,000 in 2021, \$28,000 in 2022, and \$9,000 in 2023. The counterbalance of surplus would not occur until 2024 of approximately \$106,000. Petitioner's proposal does result in a surplus of approximately \$4,000 in 2021, \$8,000 in 2022, \$27,000 in 2023, and \$142,353 in 2024. Since we find the 44306 Order of limited probative value and since Petitioner's evidence indicates that a shortfall will be created in the first four years absent using the maximum debt service in its revenue requirement here, we find that it is appropriate to use the maximum annual debt service as proposed by Petitioner in its direct case and its rebuttal case as we establish Petitioner's revenue requirement.

**D. Petitioner's Rates and Revenue Requirements.** Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the adjusted

net operating expenses based on the utility's current rates. The adjusted amounts are based on known recurring expenses, updated to include changes that are fixed, known, and measurable, and expected to occur within 12 months of the end of the test year. Those revenue requirements proposed by Petitioner and the OUCC and approved by the Commission are detailed below:

	Applicant Direct	OUCC	Applicant Rebuttal	Approved
Operating Expenses (O&M)	\$1,982,511	\$1,980,347	\$2,007,897	\$2,005,734
Taxes Other Than Income	47,310	47,310	47,310	47,310
Extensions & Replacements	458,000	458,000	458,000	458,000
Debt Service	1,160,255	1,123,889	1,160,255	1,160,255
Debt Service Reserve	74,119	-	74,119	74,119
<b>Total Revenue Requirements</b>	<b>3,711,466</b>	<b>3,609,546</b>	<b>3,747,581</b>	<b>3,745,418</b>
Less: Interest Income	10,998	10,998	10,998	10,998
<b>Net Revenue Requirements</b>	<b>3,700,468</b>	<b>3,598,548</b>	<b>3,736,583</b>	<b>3,734,420</b>
Less: Revenue at Current Rates Subject to Increase	3,510,331	3,250,201	3,253,758	3,253,758
Less: Other Revenue at Current Rates	190,137	260,130	256,573	256,573
<b>Net Revenue Increase Required</b>	<b>200,866</b>	<b>88,217</b>	<b>226,252</b>	<b>224,089</b>
Add: Additional IURC Fee	269	106	303	270
<b>Net Revenue Increase</b>	<b>\$201,135</b>	<b>\$88,323</b>	<b>\$226,555</b>	<b>\$224,359</b>
<b>Overall Percentage Increase</b>	<b>5.73%</b>	<b>2.52%</b>	<b>6.45%</b>	<b>6.39%</b>

Based on the evidence presented, we find that an overall increase of 6.39%, or a 6.90% increase to revenues at current rates subject to increase, to produce an increase in water revenues of \$224,359 is reasonable and in the public interest. Accordingly, we approve the revenue requirement and rate increase as detailed above.

Based on the approved revenue requirements, a residential customer using 5,000 gallons of water per month would experience an increase of \$3.71 per month from \$53.75 to \$57.46

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

1. Petitioner is authorized to increase its rates and charges by 6.90% to produce additional new revenue of \$224,359, resulting in total annual rate revenue of \$3,734,690.
2. Prior to implementing the approved rates, Petitioner shall file the tariff and applicable rate schedules under this Cause for approval by the Commission's Water and Wastewater Division. Such rates and charges shall be effective on or after the Order date subject to approval by the Water and Wastewater Division. This Order shall be effective on or after the date of its approval.
3. Petitioner's proposed change in its rules and regulations to allow for installment payments for its current tap fee is approved.

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

**HUSTON, KREVDA, FREEMAN, OBER, AND ZIEGNER CONCUR:**

**APPROVED: APR 17 2019**

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

*Virginia Lucay acting for Mary Becerra*  
**Mary M. Becerra**  
**Secretary of the Commission**