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Received: March 26, 2018
IURC 30-Day Filing No.: 50135
Indiana Utility Regulatory Commission

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March 26, 2018

Ms. Mary M. Becerra
Secretary to the Commission
Indiana Utility Regulatory Commission
101 West Washington Street, Suite 1500 East
Indianapolis, Indiana 46204

RE: Howard County Utilities, Cause No. 45032

Dear Ms. Becerra:

This letter is sent pursuant to the Commission's Order in Cause No. 45032, issued February 16, 2018 and is on behalf of Howard County Utilities, Inc. ("HCU"). That Order requires HCU to submit a tariff pursuant to the Commission's 30-Day Filing Procedures (170 IAC 1-6) to reflect the reduction in tax rate implemented by the Tax Cuts and Jobs Act. This letter is being submitted pursuant to that directive, although there is no change to the rates proposed.

HCU's rates were established pursuant to the Order of this Commission in Cause No. 43294 issued January 23, 2008. They were established following a true-up report which is described in finding paragraph 7:

Following the placement of the plant in service, petitioner should file in this cause under a certificate of in-service date, together with a true-up report with the Commission and the OUCC. The true-up report should identify this cause and include the total costs of all construction, including costs associated with inspections and repairs to the collection system, a land acquisition, and allowance for funds used during construction. The true-up report should show an offset as CIAC associated with any Surcharge revenues collected after January 1, 2009, in excess of the true-up costs. The true-up report should also include as an attachment a copy of this final order. *To the extent the actual cost would produce a monthly rate lower than \$69 per month using a 10% cost of equity, petitioner should file a revised rate schedule reflecting such lower rates.*

Pp. 7-8 (emphasis added.)

Submitted herewith is a report recalculating the true-up report substituting the new federal corporate income tax rate of 21%. It reveals that with the new tax rate and a 10% cost of equity, the rate would still not be lower than \$69 per month. Accordingly, there is no adjustment required to HCU's rates from the Tax Cuts and Jobs Act.

Sincerely,



Nicholas K. Kile

NKK:jc
Enclosure

DRAFT

HOWARD COUNTY UTILITIES

Waste Water Utility

Financial Update

Last updated - March 15, 2018

HOWARD COUNTY UTILITIES

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HOWARD COUNTY UTILITIES

Howard County, Indiana

Projected Statement of Income

HOWARD COUNTY UTILITIES

	Per True Up Filing	Per True Up with 21% Tax Rate
<u>Revenue Projection</u>		
Estimated Number of Equivalent Dwelling Units (EDU)	215	215
Times: Estimated Monthly Revenue per EDU	\$ 69	\$ 69
Estimated Monthly Revenue	14,835	14,835
Times: Annualize	12	12
Annual Operating Revenue	178,020	178,020
<u>Operating Expenses</u>		
<u>Operation and Maintenance Expense</u>		
Salaries, Wages, and Labor (1)	20	20
Purchased Power	14,000	14,000
Sludge Hauling	3,600	3,600
Other Treatment Expense	4,500	4,500
Total Operation and Maintenance Expense	22,120	22,120
Depreciation Expense (Schedule A-1)	48,572	48,572
<u>Income Taxes</u>		
Federal Income Tax Expense (Schedule A-2)	12,453	14,981
State Income Tax Expense (Schedule A-3)	6,485	4,959
Total Income Taxes	18,938	19,940
<u>Taxes Other Than Income Taxes</u>		
Property Tax Expense (Schedule A-4)	30,820	30,820
IURC Fee (Schedule A-3)	212	212
Total Taxes Other Than Income Taxes	31,032	31,032
Total Operating Expenses	120,662	121,664
Net Operating Income (2)	\$ 57,358	\$ 56,356

(1) Per Affiliate Agreements with American Suburban Utilities, Inc. and First Time Development Corporation

(2) See Schedule A-5 for calculation of allowable net operating income

(3) Howard County Utilities, Inc. currently has 210 Residential customers and a Golf Course (at five (5) EDU equivalency).

HOWARD COUNTY UTILITIES

Howard County, Indiana

Estimated Depreciation Expense

	Per True Up Filing	Per True Up with 21% Tax Rate
Utility Plant in Service (UPIS) as of 12/31/10		
Organization	\$ 33,450	\$ 33,450
Collection Sewers - Gravity	63,263	63,263
Pumping Equipment	6,180	6,180
Other Plant and Miscellaneous Equipment	5,028	5,028
Total UPIS as of 12/31/10	\$ 107,921	\$ 107,921
Add: Total Project Cost	1,654,336	1,654,336
Cash Paid for Plant and Equipment		
Assumed Liability for Plant and Equipment		
Land Purchase for New Plant Location	138,975	138,975
T.V. and Cleaning of Existing Lines	41,662	41,662
Total Cost of Current System and Improvements	1,942,894	1,942,894
Times: Annual Depreciation Rate	2.50%	2.50%
Estimated Annual Depreciation Expense	<u>\$ 48,572</u>	<u>\$ 48,572</u>

HOWARD COUNTY UTILITIES

Howard County, Indiana

Estimated Federal Income Tax Expense

	Per True Up Filing	Per True Up with 21% Tax Rate
<u>Net Taxable Income</u>		
Operating Revenue	\$ 178,020	\$ 178,020
LESS: Operation and Maintenance Expense	(22,120)	(22,120)
Depreciation Expense	(48,572)	(48,572)
State Income Tax Expense	(6,485)	(4,959)
Taxes Other Than Income Taxes	(31,032)	(31,032)
Net Taxable Income	<u>\$ 69,811</u>	<u>\$ 71,337</u>
Total Taxable Income		71,337
Times: 21% Tax Rate		<u>21%</u>
Income Tax at 21% Tax Rate		<u>14,981</u>
First \$50,000 of Taxable Income	50,000	
Times: 15% Rate	<u>15%</u>	
Income Tax at 15% Tax Rate	<u>7,500</u>	
Next \$25,000 of Taxable Income	19,811	
Times: 25% Tax Rate	<u>25%</u>	
Income Tax at 25% Tax Rate	<u>4,953</u>	
Next \$25,000 of Taxable Income	-	
Times: 34% Tax Rate	<u>34%</u>	
Income Tax at 34% Tax Rate	<u>-</u>	
Up to \$235,000 Taxable Income	-	
Times: 39% Tax Rate	<u>39%</u>	
Income Tax at 39% Tax Rate	<u>-</u>	
Estimated Federal Income Tax Expense	<u>\$ 12,453</u>	<u>\$ 14,981</u>

Howard County Utilities

Howard County, Indiana

Estimated State Income Tax Expense and
Indiana Utility Regulatory Commission (IURC) Fee

	Per True Up Filing	Per True Up with 21% Tax Rate
<u>Estimated State Income Tax Expense</u>		
Operating Revenue	\$ 178,020	\$ 178,020
Less: Operation and Maintenance Expenses	(22,120)	(22,120)
Less: Depreciation Expense	(48,572)	(48,572)
Less: Taxes Other Than Income Taxes	(31,032)	(31,032)
Adjusted Gross Income	76,296	76,296
Times: Tax Rate	8.50%	6.50%
Estimated State Income Tax Expense	<u>\$ 6,485</u>	<u>\$ 4,959</u>
 <u>Estimated IURC Fee</u>		
Operating Revenue	\$ 178,020	\$ 178,020
Times: IURC Fee Rate	<u>0.1189250%</u>	<u>0.1189250%</u>
Estimated IURC Fee	<u>\$ 212</u>	<u>\$ 212</u>

Howard County Utilities
Howard County, Indiana

Estimated Property Tax Expense

	Per True Up Filing	Per True Up with 21% Tax Rate
Total Cost of Current System and Improvements (Schedule A-1)	\$ 1,942,894	\$ 1,942,894
Times: Ervin Township Tax Rate (Rate per \$100 of Assessed Valuation)	1.5863	1.5863
Property Tax Expense	\$ 30,820	\$ 30,820

Howard County Utilities

Howard County, Indiana

Estimated Allowable Net Operating Income

	Per True Up Filing	Per True Up with 21% Tax Rate
Total Cost of Current System	\$ 1,942,894	\$ 1,942,894
Less: CIAC (January 2009 to May 2011)	(68,050)	(68,050)
Net: Rate Base	1,874,844	1,874,844
Times: Estimated Weighted Cost of Capital	10.00%	10.00%
Estimated Allowable Net Operating Income	<u>\$ 187,484</u>	<u>\$ 187,484</u>