ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	✓		
Freeman	✓		
Krevda	✓		
Ober	✓		
Ziegner	✓		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF MARTINSVILLE, INDIANA, FOR AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES.	)	**CAUSE NO. 45262** **APPROVED:** MAY 13 2020

ORDER OF THE COMMISSION

Presiding Officers:
David L. Ober, Commissioner
Brad J. Pope, Administrative Law Judge

On July 19, 2019, the City of Martinsville, Indiana ("Petitioner" or "Martinsville") filed its Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission"), seeking authority to issue bonds, notes, or other obligations and to increase its rates and charges for water utility service. Petitioner also requested approval of new schedules of rates and charges. In support of its requests, Martinsville filed the testimony and attachments of Joshua Messmer, P.E., S.E., City Engineer for the City of Martinsville; Troy Swan, P.E., Vice President, Senior Project Manager with HWC Engineering, Inc.; and Katelyn Shafer, Accountant/Financial Advisor with Reedy Financial Group, P.C.

Pursuant to notice given and published as required by law, proof of which was incorporated into the record, the Commission held a Prehearing Conference at 9:30 a.m. on August 20, 2019, in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the Indiana Office of Utility Consumer Counselor ("OUCC") appeared and participated at the Prehearing Conference. The procedural schedule determined at the Prehearing Conference was memorialized in the Commission's Prehearing Conference Order approved on August 28, 2019. The parties agreed to a bifurcated procedural schedule whereby all engineering and project management matters had a procedural schedule separate and distinct from all other matters in Petitioner's case-in-chief including financing, accounting, and ratemaking treatment.

On November 7, 2019, the OUCC prefiled its case-in-chief on the engineering issues including the testimony and attachments of Kristen Willoughby, Utility Analyst II in the Water/Wastewater Division; and James T. Parks, P.E., Utility Analyst II in the Water/Wastewater Division. Due to technical difficulties, Mr. Parks' testimony was inadvertently omitted from the OUCC's electronic filing. The OUCC filed its Notice of Omitted Filing and Corrections on November 8, 2019, and attached Mr. Parks' testimony to the filing.

On November 13, 2019, Petitioner filed its Notice of Substitution of Witness indicating that Mr. Swan was being substituted and adopting the Direct Testimony prefiled by Mr. Messmer. On November 20, 2019, Petitioner prefiled the Rebuttal Testimony of Mr. Swan.

After the OUCC filed its case-in-chief on the engineering issues, the parties engaged in discussions to address issues identified by the OUCC in its engineering testimony and those it would have identified in accounting testimony. As a result, on November 26, 2019, the OUCC filed its Notice of Intent Not to File Testimony, indicating that the parties had reached a settlement in principle resolving all issues in this proceeding.

On December 3, 2019, Petitioner filed a Stipulation and Settlement Agreement ("Settlement") between Petitioner and the OUCC (collectively, the "Settling Parties") with respect to all issues raised in this Cause. In support of the Settlement, Petitioner filed Settlement Testimony from Troy Swan on the engineering issues, and the OUCC filed Settlement Testimony from Margaret Stull on the financing and accounting issues.

The Commission held an Evidentiary Hearing in this Cause on December 17, 2019, at 9:30 a.m. in Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated at the hearing. Petitioner and the OUCC offered their respective prefiled testimony and attachments, which were admitted into the record without objection.

On January 31, 2020, the OUCC filed a Motion to Open the Record ("Motion") for the purpose of receiving additional evidence. Specifically, the OUCC sought to introduce the January 9, 2020 Press Release issued by Lt. Governor Suzanne Crouch and the Indiana Office of Community and Rural Affairs ("OCRA") indicating that Petitioner was awarded $700,000 for improvements to its drinking water supply, treatment, and distribution system. On February 7, 2020, Petitioner filed its Response and Joinder in OUCC's Motion in which it agreed with the OUCC that the Commission should consider the grant. The Presiding Officers granted the Motion by docket entry on February 19, 2020.

The Commission set this matter for a second Evidentiary Hearing to be held on March 31, 2020, at 1:30 p.m. in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. On March 26, 2020, a docket entry was issued advising that in accordance with Indiana Governor Holcomb's Executive Order 20-09, the hearing would be conducted via teleconference and providing related participation information. Petitioner and the OUCC, by counsel, participated in the hearing via teleconference. At the hearing, Petitioner's OCRA Grant Application and the OCRA Award Information offered by Petitioner and the January 9, 2020 Press Release offered by the OUCC were admitted into evidence without objection.

Based upon the applicable law and evidence presented, the Commission now finds:

1. <u>Notice and Jurisdiction</u>. Notice of the hearing in this Cause was given and published as required by law. Martinsville owns and operates a "municipally owned utility" as that term is defined in Ind. Code § 8-1-2-1(h). Under Ind. Code § 8-1.5-3-8(f)(2), Petitioner is

required to obtain Commission approval of its water utility rates and charges, and under Ind. Code § 8-1.5-2-19, Petitioner is required to obtain Commission approval for the issuance of bonds, notes, or other obligations that are payable more than 12 months after execution. Therefore, the Commission has jurisdiction over Martinsville and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Petitioner is a municipality that owns, operates, manages, and controls plant and equipment within the State of Indiana for the production, transmission, delivery, and furnishing of water to the public within and around the City of Martinsville, Indiana. In 2018, Petitioner served 4,714 customers representing 15,000 people per Petitioner's estimate. Petitioner's water system consists of three wells, a 4.32 MGD Granular Activated Carbon ("GAC") filtration treatment plant, four booster stations, three water storage tanks, and approximately 130 miles of water distribution mains in sizes ranging from 3/4-inch to 16-inch. Petitioner also provides public and private fire protection service within city limits and has 580 fire hydrants and 100 flushing hydrants. The Commission approved Petitioner's existing rates and charges in Cause No. 44153 on December 12, 2012.

3. **Test Year.** The test year selected for determining Petitioner's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates was the 12 months ended December 31, 2018. With adjustments for changes that are fixed, known, and measurable, we find that this test period is sufficiently representative of Petitioner's normal operations to provide reliable data for ratemaking purposes.

4. **Petitioner's Case-In-Chief.** In its Petition, Petitioner requested authority to issue bonds, notes, or other evidence of indebtedness and to increase its rates and charges on a 19.77% across-the-board basis to be implemented in three-phases as follows: an increase of approximately 8.42% to be effective on January 1, 2021 ("Phase 1"); an increase of approximately 5.58% to be effective on January 1, 2022 ("Phase 2"); and an increase of approximately 4.63% to be effective on January 1, 2023 ("Phase 3"). If approved, the overall rate increase would generate annual revenues of $3,139,614.

Petitioner proposed to fund various capital improvements totaling $6,420,000 with a State Revolving Fund bond ("SRF"). Specifically, the proposed improvements include replacing three wells in its existing tetrachloroethylene ("PCE")-contaminated wellfield, renovation of the existing Water Treatment Plant, installation of a new booster station, and replacement of mains, valves, and hydrants.

Petitioner also proposed a $37,544 increase to its salaries and wages expense in order to hire a new employee. With anticipation of the proposed full-time position being filled, Petitioner proposed a decrease of $23,877 to salaries and wages for overtime.

5. **OUCC's Responsive Testimony.** OUCC witness Willoughby testified about the importance of lead service line replacement programs and recommended that Petitioner avoid partial lead service line replacements until it has developed a program or practice that includes replacing both sides of the lead service lines, as recommended by the Indiana

Department of Environmental Management. She further recommended that Petitioner establish a tank maintenance and painting program. She advised that the funds for this program should be placed in a restricted account and that Petitioner prefund this account with funds already collected for this purpose. Ms. Willoughby also recommended that Martinsville adopt six sections of the American Water Works Association Standard G200 on tank maintenance and inspection programs, valve exercising and replacement, pipeline rehabilitation and replacement, fire hydrant maintenance and testing, and required documentation. Lastly, Ms. Willoughby recommended Martinsville fill out all applicable portions of the Commission's Annual Report each year and develop an asset management plan utilizing geographic information system technology. She recommended that Petitioner provide notice to the Commission and the OUCC once the asset management plan has been completed.

OUCC witness Parks agreed with Martinsville's decision to renovate its existing water treatment plant, which is less than 15 years old, rather than build new wells and a new plant at a different location because Martinsville's existing wellfield and plant produce high quality finished water complying with all U.S. Environmental Protection Agency and state-level requirements. He also testified regarding Martinsville's failure to complete most of the nine capital projects that it proposed in its prior rate case (Cause No. 44153) despite receiving a higher $424,800 annual allowance for extension and replacements ("E&R"). He testified that Martinsville has over $1.5 million in reserve funds.

Mr. Parks stated that Martinsville's proposed capital improvements for new wells, treatment plant renovations, and replacements of the Hacker Creek Booster Station, water mains, and hydrants appear to be reasonable. However, he recommended Petitioner replace only two of its three wells since the third well (i.e., Well #5) is 31 years old and still has useful life. He added that Martinsville should continue to maintain a staggered age spread of its assets, such as wells, to avoid having to replace them all at roughly the same time. He also testified that the estimated $1,691,690 well replacement cost, or $564,000 per well, appears to be overstated based on a $312,590 Peerless Midwest quote to construct three new wells with three new pumps, or $104,200 per well. Mr. Parks calculated that by removing the inflated costs and replacing two wells instead of three, well cost would be reduced approximately $750,000. However, he proposed that the Commission still authorize the same $6.42 million financing level but that Martinsville identify additional distribution system projects to modestly accelerate water main and service line replacements to keep closer step with depreciation. Mr. Parks also recommended that the Commission require Martinsville to comply with its commitments made in the Cause No. 44153 Settlement Agreement to submit annual reports regarding E&R expenditures, PCE contamination levels, and periodic maintenance and that Martinsville annually report what it spends on capital improvements.

6. **Petitioner's Rebuttal.** In his Rebuttal Testimony, Mr. Swan generally agreed with most of the OUCC's recommendations with respect to engineering issues. However, Mr. Swan disagreed with Mr. Parks' contention that Martinsville's well replacement cost estimates were inflated and his recommendation that Martinsville only replace two of its three wells. Mr. Swan testified that the new wells would be competitively bid and therefore, will cost whatever is the lowest responsive and responsible bidder. He agreed with Mr. Parks' recommendation

that any cost savings resulting from the well projects can be used for further main replacement work. Mr. Swan further testified that he disagreed with Mr. Parks' recommendation to only replace two of the three wells at this time. Mr. Swan testified the remaining well is 30 years old and will likely need to be replaced in a few years. He further testified that, in his view, it will be more costly in the long run to stagger the well replacements as Mr. Parks recommends. However, the parties' resolution of these issues is addressed in the Settlement and accompanying testimony.

Mr. Swan then responded to Mr. Parks' testimony that Petitioner has accumulated $1.5 million in "reserve funds." He explained that Mr. Parks is partially right because these are not "reserve funds" but are instead the funds in Petitioner's Operating Fund account. He stated that this account could not be depleted to install main replacements and that issues concerning this account's appropriate funding level would likely be addressed in the accounting phase of the proceeding. Mr. Swan added that Petitioner has agreed to reallocate funds from this account to the restricted tank painting account. With those caveats, Mr. Swan testified that there will likely be some level of Operating Funds that will be available to expedite main replacement work.

7. **Settlement Agreement.** As filed with the Commission, the Settlement presents the parties' resolution of all issues—including engineering, financing, and accounting—in this proceeding. The Settlement is attached to this Order and incorporated by reference. Martinsville witness Troy Swan and OUCC witness Margaret Stull offered Settlement Testimony describing the Settlement as a fair, just, and reasonable resolution of the issues presented in this proceeding.

A. **Engineering Issues.** Mr. Swan testified that the Settlement represents a reasonable resolution of the engineering issues, is in the public interest, and should be approved. Mr. Swan noted that the OUCC made a number of recommendations related to Petitioner's proposed capital projects in its case-in-chief, and Petitioner agreed with the majority of these recommendations. Petitioner's agreement with the OUCC's recommendations, which were provided either in testimony or during settlement discussions, on these non-revenue requirement engineering issues is reflected in the terms outlined in Paragraphs 2a. through 2h., and 2j. of the Settlement. These terms include Petitioner's agreement to establish a restricted account for tank maintenance and to pre-fund this account in the amount of $140,000 (Paragraph 2a.), establish a tank maintenance program within six months of issuance of the final Order in this Cause (Paragraph 2b.), complete an Asset Management Plan and provide notice of such plan to the Commission and OUCC (Paragraph 2c.), and establish a restricted account for capital improvements (Paragraph 2d.). In the Settlement, Petitioner also agreed to submit Annual Reports to the Commission and the OUCC describing its capital improvements and periodic maintenance expenditures, among other terms (Paragraph 2e.).

Paragraph 2i. of the Settlement reflects the Settling Parties' compromise on the two issues raised by the OUCC with which Petitioner did not agree. As discussed in Mr. Swan's Settlement Testimony, Petitioner agreed to only replace two of its three wells at this time, per OUCC witness Parks' recommendation. Mr. Swan provided an overview of the 20-year history of the PCE contamination issues in Martinsville and testified that, for most of this time,

Martinsville believed that development of a new wellfield would be necessary to address the problem. Mr. Swan explained, however, that after considerable study and with the EPA's participation, the current administration concluded that developing a new wellfield is not presently necessary, and Martinsville needs to move forward with replacing the existing wells that are past their useful lives. Mr. Swan stated that a new administration takes office on January 1, 2020, and the incoming administration has not yet reached the comfort level that the current administration has with the existing wellfield and GAC filters. He testified that Petitioner has decided to only replace two of its wells at this time for purposes of the Settlement. With respect to the estimated costs of the well replacement projects, as reflected in Mr. Swan's Rebuttal Testimony and Paragraph 2i. of the Settlement, Petitioner agreed with Mr. Parks' recommendation to use any cost savings resulting from the well replacement projects to accelerate water main replacements.

Mr. Swan testified the parties' agreement on the well replacement projects is a reasonable resolution of the issue. He testified that by only replacing two wells, Petitioner is in alignment with the OUCC's recommendation on the issue, and Martinsville will be able to replace two wells that are past their useful life and in critical need of replacement or rehabilitation. He further testified that by not replacing all three wells, Petitioner will not be investing any more than is necessary in its existing wellfield such that if Martinsville ultimately decides to develop a new source of supply, its investment in this case will be relatively small and no more than is presently needed.

B. <u>Accounting Issues</u>. Ms. Stull offered Settlement Testimony on the compromise reached by the Settling Parties with respect to certain accounting issues. She stated that the Settlement is in the public interest because Martinsville will have sufficient funds to pay necessary operating expenses and capital improvements. Ms. Stull stated that ratepayers will receive the benefit of lower rates relative to those initially proposed by Petitioner, and she testified the Settling Parties value the certainty and speed of implementing negotiated outcomes such as the Settlement reached in this Cause.

The terms are outlined in certain portions of Paragraph 2, as well as Paragraphs 3 and 4 of the Settlement as follows:

i. <u>Revenue Requirement Issues</u>. As discussed in Ms. Stull's Settlement Testimony and as set forth in Paragraph 3 of the Settlement, the Settling Parties ultimately agreed that Petitioner should be permitted to increase its customer rates and charges for water service to reflect an overall net revenue requirement of $2,869,274. This results in an overall increase of 14.30% on an across-the-board basis, or $346,783 over Martinsville's current revenue at existing rates. The increase in rates will take place in three steps or phases: (1) 6.28% in Phase 1 for an increase in revenues of $152,316 to take effect January 1, 2021; (2) 3.16% in Phase 2 for an increase in revenues of $81,523 to take effect January 1, 2022; and (3) 4.25% in Phase 3 for an increase in revenues of $112,944 to take effect January 1, 2023.

Table MAS-1 on page 3 of Ms. Stull's Settlement Testimony (Public's Exhibit No. 4) provides a comparison of the overall revenue requirement proposed by Martinsville with that

agreed to in the Settlement. Ms. Stull described each of the revenue requirement line items in her Settlement Testimony and provided a comparison of Petitioner's case-in-chief position, the OUCC's case-in-chief position, and the Settling Parties' final position to show the compromise reached on these issues.

Ms. Stull testified that the Settling Parties agreed to Petitioner's proposed increase to add one employee and its proposed decrease to eliminate a portion of test year overtime. She added that the Settling Parties agreed to an adjustment to reflect a 2% average wage increase for 2019 related to a union contract. This resulted in a net salaries and wages increase of $22,526. In addition, Ms. Still testified that subsequent corresponding adjustments to payroll tax expense and PERF were made. Specifically, she stated that the Settling Parties agreed to an increase in FICA of 6.20% of the $22,526 totaling $1,397; a Medicare increase of 1.45% totaling $327; and PERF increase of 11.20% totaling $2,523.

ii. Non-Revenue Requirement Issues. Ms. Stull also testified regarding the accounting related non-revenue requirement issues. She stated that for purposes of Settlement, and as reflected in Paragraphs 2f. and 2g. of the Settlement, the Settling Parties agreed that Martinsville will account for its water utility using the proprietary (i.e., enterprise) fund accounting methodology and will implement this change prior to filing its next rate case but no later than January 1, 2021. Ms. Stull further testified that Martinsville agreed to review the NARUC Uniform System of Accounts guidelines and, to the extent possible, use this as a template to set up new accounts needed for its proprietary fund accounting system. She testified that with this change, Martinsville will stop recording sales tax receipts and disbursements as revenues and expenses. Instead, Martinsville will record these as debits and credits to a sales tax liability account.

Ms. Stull also testified regarding the Settling Parties' compromise on other non-revenue requirement terms. She stated that for purposes of Settlement and as set forth in Paragraph 2h. of the Settlement, the Settling Parties agreed that within 60 days of a final order being issued in this Cause, Martinsville will make a 30-day filing to add a tap fee with a boring charge to its authorized tariff.

iii. Debt Issuance and Debt Service. Ms. Stull also testified regarding the debt-related terms of the Settlement. As discussed in Ms. Stull's Settlement Testimony, the Settling Parties agreed Martinsville's proposed debt financing of $6,420,000, should be approved.[1] Further, as set forth in Paragraph 2j. of the Settlement, within 30 days after closing on the SRF loan, Martinsville shall file a true-up report in this Cause describing the final terms of the loan, the amount of debt service reserve, and the amortization schedule. The OUCC has 14 calendar days to state whether it objects to or disagrees with the true-up report. If there is no objection and if the annual debt service payment on the loan differs from the originally estimated total of $136,746, Martinsville shall file a revised tariff adjusting the rates to include the final amount of annual interest payments. However, if the cost of the debt is more than

[1] The Commission notes an error in Ms. Stull's Settlement Testimony. On page 14 she states the proposed debt financing is $6,200,000, but the Debt Service on page 15 is based on Martinsville's request of $6,420,000. The Commission believes the testimony on page 14 was an error and should read as $6,420,000.

$136,746 per annum, Martinsville may, in its sole discretion, elect not to file a revised tariff reflecting a higher interest payment for the SRF loan.

With respect to expenditures from debt service reserve, as set forth in Paragraph 4 of the Settlement and as discussed in Ms. Stull's Settlement Testimony, the Settling Parties agreed on a debt service reserve revenue requirement of $117,921. If Martinsville spends any of the funds from its Debt Service Reserve for any reason other than to make the last payment on the underlying, already approved debt, Martinsville will provide a report to the Commission and the OUCC within five days after such expenditures providing specific information related to the expenditure. The Settling Parties agreed that the report should state how much Martinsville spent from its debt service reserve, provide an explanation for why Martinsville spent the funds, provide a cite to any applicable loan documents that allow it to spend the funds, describe the plan to replenish the debt service reserve, and explain any cost-cutting activities it has implemented to forestall spending funds from its debt service reserve.

iv. Conclusion. Ms. Stull concluded that the Settlement is a fair, just, and reasonable solution of the revenue requirement issues in this Cause. She further testified the Settlement represents a reasonable compromise that the Settling Parties support as beneficial to both Petitioner and its customers.

C. Stipulation Effect, Scope, and Approval. Paragraph 5 of the Settlement addresses the effect and scope of the Settlement, the approval being sought for the Settlement and applicable conditions to the effect of the Settlement. Paragraph 5 of the Settlement specifically makes clear that the Settlement is the result of compromise in the settlement process, and that neither the making of the Settlement agreement nor any of its provisions shall constitute an admission or waiver by any Settling Party in any proceeding, now or in the future, nor shall it be cited as precedent. Paragraph 5 also states that the Settlement is a compromise and will be null and void unless approved in its entirety without modification or further condition that is unacceptable to any Settling Party. The Settlement also includes provisions concerning the substantial evidence in the record supporting the approval of the Settlement, recognizes the confidentiality of the settlement communications, and reflects other terms typically found in settlement agreements before this Commission.

8. Commission's Docket Entry Request. On December 11, 2019, the Commission issued a Docket Entry requesting: (1) a complete copy of Appendix D to the May 2019 Water System Improvements Preliminary Engineering Report, as referenced in Section 8 – Public Participation; and (2) documentation that public notice was provided explicitly stating that Martinsville plans to build new wells in its existing wellfield. On December 13, 2019, Petitioner responded to the Commission's request by attaching a Proof of Publication, sign-in sheet, and Public Hearing Minutes for the May 20, 2019 Public Hearing, and by attaching newspaper articles discussing two public meetings that were held leading up to the approval of Martinsville's Ordinance No. 2019-1799 Exhibit A.

9. Commission Discussion and Findings Regarding the Settlement. Settlements presented to the Commission are not ordinary contracts between private parties. *United States*

Gypsum, Inc. v. Indiana Gas Co., 735 N.E.2d 790, 803 (Ind. 2000). When the Commission approves a settlement, that settlement "loses its status as a strictly private contract and takes on a public interest gloss." *Id.* (quoting *Citizens Action Coalition v. PSI Energy Inc.*, 664 N.E.2d 401, 406 (Ind. Ct. App. 1996)). Thus, the Commission "may not accept a settlement merely because the private parties are satisfied; rather [the Commission] must consider whether the public interest will be served by accepting the settlement." *Citizens Action Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *United States Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement, we must determine whether the evidence in this Cause sufficiently supports the conclusions that the Settlement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2 and that such agreement serves the public interest.

The Commission has before it substantial evidence from which to determine the reasonableness of the terms of the Settlement. Our review of the reasonableness of the Settlement is aided by the Settling Parties' supporting Settlement Testimony. The Settling Parties' supporting testimony provides an explanation of the components underlying the increase in base rates and charges provided for in the Settlement, and therefore, we find the rates and charges are reasonable for purposes of settlement and supported by the evidence of record.

Approval of the Settlement eliminates the risks, uncertainty, and additional time and resources that would otherwise be required for the Commission to issue its final Order in this proceeding. The Settlement also resolves the two disputed engineering issues in this Cause, which includes the parties' disagreement on the well replacement projects, and reaches a reasonable compromise on these issues incorporated into this Order below. Ultimately, the Settlement provides for a reasonable increase and a resolution of the parties' dispute with respect to the engineering issues while also allowing Martinsville to make much needed capital improvements to its system.

With respect to the Settling Parties' approach to the wellfield and well replacement projects, we agree with Petitioner and the OUCC that the Settlement approach is a reasonable and fair resolution of the issue. The only real disagreement between Petitioner and the OUCC on this issue was the OUCC's recommendation that Petitioner replace two of its three wells at this time rather than all three. On rebuttal, Petitioner disagreed with the OUCC's position and testified that it would be more costly in the long run to stagger the well replacement projects as OUCC witness Parks recommended. Following settlement negotiations, however, Petitioner agreed with the OUCC's recommendation to only replace two of its wells. Martinsville witness Swan testified that this approach will allow Martinsville to replace the two existing wells that are past their useful life, while also limiting the investment in the existing wellfield, so that the next administration may continue studying the development of a new wellfield to address the

PCE contamination issue. Petitioner testified that by only replacing two wells, Petitioner will only be investing what is necessary in its existing wellfield such that if Martinsville ultimately decides to develop a new source of supply, its investment in this Cause will be relatively small and no more than what is presently needed.

Martinsville indicated it has been deliberating about how to address the PCE contamination of its wellfield for almost 20 years. As Mr. Swan discussed in his Settlement Testimony, for most of this time, Martinsville believed that developing a new wellfield would be necessary to address the issue. However, Mr. Swan stated that after considerable study and analysis, Martinsville determined that development of a new wellfield is not necessary at this time and that the GAC filtration system currently in place is sufficient to address the issue. This conclusion is aided by the EPA's intention to assume the cost of maintaining the GAC filters.

As evidenced by Petitioner's responses to the Commission's December 11, 2019 Docket Entry Request, Petitioner notified the public of its decision to change course and install new wells in the existing wellfield. Furthermore, the attachments provided with Petitioner's responses indicate that the project was discussed at a series of public meetings where Martinsville citizens had an opportunity to provide input and to submit public comment on the new scope of the proposed project.[2] Based on this evidence, Martinsville's citizens had adequate opportunity to be informed of Petitioner's decision to change the project and redevelop the existing wellfield, and Petitioner presented ample evidence in this proceeding to support its determination that this approach is sufficient to address the PCE contamination issue.

The Settlement filed in this Cause and Petitioner's supporting Settlement Testimony reflect that Petitioner has decided to make only what it considers the necessary investment in its existing wellfield in order to maintain access to its source of supply while allowing the incoming administration to do its own evaluation as to whether a new wellfield should be considered. While this approach is different than the approach initially proposed in Petitioner's case-in-chief and communicated to the public, the Commission recognizes the unique nature of municipally owned utilities and the challenges that arise with the potential for a change in administration every four years. It is appropriate for Petitioner's current administration to recognize the incoming administration may wish to conduct its own evaluation of whether to develop a new wellfield. This approach also aligns with the OUCC's recommendation to stagger the replacement of assets and retain an asset that has not reached the end of its useful life and is still producing water. Therefore, the Commission finds that this resolution is reasonable in the context of the overall Settlement, and is in the public interest.

10. <u>Commission Conclusion Regarding the Settlement</u>. The evidence demonstrates that the Settlement is the result of serious negotiations and will provide benefits to Martinsville's customers as well as allowing Martinsville the opportunity to earn sufficient revenue to meet its revenue requirements. The Settlement also provides for appropriate treatment of Martinsville's revenues and expenses in the calculation of its revenue requirements. Therefore, we find that the Settlement is reasonable, just, consistent with the purpose of Ind. Code ch. 8-1-2, and in the public interest.

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[2] *See* Petitioner's Response to Docket Entry Request Dated December 11, 2019, at Attachment IURC 1-2.

On the basis of the Settlement and the supporting evidence presented in these proceedings, we find that Petitioner should be authorized to increase its rates and charges to produce additional revenue of $346,783, or an overall increase of 14.30% on an across-the-board basis. The increase in rates will take place in three steps or phases: (1) 6.28% in Phase 1 for an increase in revenues of $152,316 to take effect January 1, 2021; (2) 3.16% in Phase 2 for an increase in revenues of $81,523 to take effect January 1, 2022; and (3) 4.25% in Phase 3 for an increase in revenues of $112,944 to take effect January 1, 2023.

Revenue Requirements:	Settlement - Phase 1	Settlement - Phase 2	Settlement - Phase 3
Operating Expenses	$1,418,131	$ 1,387,216	$ 1,387,216
Sales Tax Expense	-		
Utility Receipt Tax	36,999	39,436	40,740
Depreciation Expense	141,025	211,538	282,051
Payment in Lieu of Taxes	81,245	121,867	162,490
Working Capital	-	-	-
Debt Service	886,786	886,786	886,786
Debt Service Reserve	117,921	117,921	117,921
Total Revenue Requirements	2,682,107	2,764,764	2,877,204
Revenue Requirement Offsets:			
Interest Income	(4,189)	(4,189)	(4,189)
Pro forma Net Revenue Requirements	2,677,918	2,760,575	2,873,015
Less: Revenues at current rates subject to increase	(2,424,954)	(2,577,270)	(2,658,793)
Other revenues at current rates	(103,085)	(103,085)	(103,085)
Net Revenue Required	149,879	80,220	111,137
Additional Utility Receipt Tax	2,437	1,304	1,807
Recommended Increase	$ 152,316	$ 81,523	$ 112,944
Recommended Percentage Increase	6.28%	3.16%	4.25%

The Commission further finds and concludes that the Settlement is reasonable, supported by substantial evidence, and in the public interest. Accordingly, the Settlement is approved. Based on the rate increases approved in the Settlement, the average monthly bills for residential customers using 5,000 gallons per month in Phases I, II, and III are $39.80, $41.06, and $42.80, respectively. This is based on customers taking service from 5/8" meters and includes volumetric, service, and fire protection charges. The total monthly increase from current rates to final Phase III rates is $5.35.

Under Ind. Code § 8-1.5-2-1 9(b), when a municipality, such as Martinsville, issues debt, it must show that the rates and charges "will provide sufficient funds for the operation, maintenance, and depreciation of the utility, and to pay the principal and interest of the proposed

bond issue, together with a surplus or margin of at least ten percent (10%) in excess." Ind. Code § 8-1.5-2-19(b). Using the figures from the Settlement schedules, the Commission finds Martinsville has met the standard under Ind. Code § 8-1.5-2-19(b) and, therefore, certifies that Petitioner's authorized rates and charges provide sufficient funds for O&M and depreciation and to pay the principal and interest of the proposed bond issue, together with a surplus or margin of at least 10% in excess. Therefore, the Commission authorizes Martinsville to issue additional long-term debt in one or more issues to the SRF or pursuant to competitive sale or private placement at or below competitive market rates and in principal amount not to exceed $6,420,000. However, as detailed below, the Commission has established a procedure to incorporate the award of OCRA Grant Award proceeds.

11. <u>Effect of Settlement Agreement</u>. Consistent with the terms of the Settlement, the Settlement is not to be used as precedent in any other proceeding or for any other purpose except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement or of this Order, we find our approval herein should be treated in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434 (IURC 3/19/1997).

12. <u>Petitioner's OCRA Grant Application and Award</u>. We now address the allocation of Petitioner's $700,000 OCRA Grant Award proceeds within the context of the record of this proceeding.

As part of its case-in-chief submitted on July 19, 2019, Martinsville included its Water System Improvements Preliminary Engineering Report ("PER") prepared by HWS Engineering as an attachment to Mr. Swan's direct testimony. Petitioner's Exhibit No. 2, Attachment TMS-1. In the PER on Table 6-3: Proposed Project Schedule, Petitioner indicated its intent to apply for an OCRA grant in November 2019 to use towards its proposed replacement of three wells and other drinking water capital improvements. *Id.*, Page 93. Petitioner also included a potential $600,000 OCRA grant in its financing calculations in Table 7-1: SRF Project Financing Information with the goal of reducing its SRF loan to an estimated $5,795,000. *Id.*, Page 99.

In OUCC witness Parks' testimony filed on November 8, 2019, he stated, "I understand that Martinsville is also applying for a grant from [OCRA]. Due to its low median household income, Martinsville has a good chance of obtaining an OCRA Grant." Public's Exhibit No. 2, Page 15. An acknowledgment of the OCRA Grant Application was also included in Table 2: Proposed Capital Improvements, with the notation that an estimated $53,000 in OCRA Grant Application costs were ineligible SRF costs. *Id.*, Page 9. A third reference to the OCRA Grant Application was included in Petitioner's Response to OUCC Data Request 2-01 dated August 16, 2019, and attached to Mr. Parks' testimony. *Id.*, Attachment JTP-9, Page 2. As such, the OUCC was aware of Petitioner's intent to submit an OCRA Grant Application throughout the pendency of this proceeding.

Despite these references, the Settling Parties neglected to stipulate how a potential award of OCRA grant proceeds would be allocated in their Settlement, which was finalized on December 2, 2020. The Settlement did provide, however, that Petitioner shall borrow its full

SRF borrowing authority of $6.42 million, but only replace two of its three wells with funds supplied through its SRF financing. The Settlement further stated that any remaining SRF funds would then be applied towards additional water main replacement projects. Given the lack of direction regarding use of OCRA grant proceeds within the Settlement, we turn to Petitioner's intended use for the funds as stated in its OCRA Grant Application.

Petitioner submitted its OCRA Grant Application by November 22, 2019. In the application under "Project Description," Petitioner stated that its proposed project involves two components: 1.) Supply and Treatment Plant Improvements; and 2.) Distribution System Improvements. The description continued by stating the preferred plan for the supply and treatment plant improvements includes redeveloping the existing wellfield. This would include developing three new 1,400 gallon per minute wells in the existing wellfield and decommissioning the existing wells once the redeveloped wellfield is fully operational. Petitioner stated that based on information from the project engineering firm, replacing the three wells will increase water supply capacity by approximately 47% and reduce maintenance costs by approximately $50,000 per year. Petitioner stated the wells were installed between 1955 and 1989, and over the last five years, numerous issues have been identified with each well including screen fouling, casing deterioration, pump wear, and reduced firm capacity. Petitioner also stated the wells and supporting infrastructure are increasingly difficult to maintain as replacement parts for the pump are becoming obsolete. Petitioner added that the time to replace the wells is now before they deteriorate further leading to a possible outage for a significant period of time.[3]

The OCRA Grant Application also contained a description of the capital projects agreed to by the Settling Parties. These projects include renovations to the existing treatment facility building such as a new plant sanitary lift station and the construction of a new lab and office building adjacent to the existing treatment building. Regarding distribution system improvements, the application's project description detailed the replacement of high priority water mains, the installation of approximately 80 hydrants, and the replacement of the Hacker Creek Booster Station (although ineligible for Community Development Block Grant funding). Given that Petitioner's proposed treatment facility and distribution system improvements are covered by the Settlement and its supporting testimony, we focus our attention on the replacement of the third well (i.e., Well #5), an aspect of Petitioner's case-in-chief with which the OUCC disagreed.

In responding to OUCC witness Parks' contention that the third well should not be replaced at this time (summarized above), Petitioner witness Swan stated the third well is 30 years old and would need to be replaced within a few years. He testified that well replacements constitute major capital projects requiring more engineering and electrical work than main

[3] In support of the need to replace its wells, Petitioner engineer Scott Manley stated in an email to Petitioner's Grant Administrator that "Well #5, our second largest producing well, was out of service for about five months due to parts being hard to locate. Thankfully, we were able to get the parts and the well back in operation before that dry hot summer or we would have been starved for water. The fact that this happened is a little scary due to the age and condition of these wells." Petitioner Exhibit No. 7, Page 184. We note that Well #5 is the well the Settling Parties agreed to defer replacing with SRF funds in the Settlement.

replacements, and he expressed his concern that deferral of the third well replacement poses a significant risk. He added that removing the third well from the project would require amending the PER and returning to the IFA for approval of the project's revision. He concluded that deferring the third well replacement will be more costly in the long run due to the cost advantages of simultaneously replacing all three wells.

Despite Petitioner's request for authority to replace each of its three wells as a result of this proceeding, Petitioner compromised during negotiations with the OUCC and agreed to only replace two. In particular, the Settlement stated that Petitioner shall only replace two of its three wells with funds received from its SRF financing. However, the Settlement did not foreclose the possibility of replacing the third well with funds received from a different source, such as an award of OCRA grant proceeds. As such, Petitioner will not be in violation of its Settlement obligations if the OCRA grant proceeds are allocated towards the replacement of the third well.

Pursuant to Petitioner's stated intent of its use of proceeds to be received from the OCRA Grant Application, we find that it is reasonable, prudent, and consistent with the OCRA Grant Award for Petitioner to use the OCRA grant proceeds to replace Well #5. However, the Commission does not have sufficient evidence to determine the cost of replacing Well #5, which drives the eventual amount of the SRF loan. As provided in testimony and its OCRA Grant Application, Martinsville's estimate is $250,000.[4] In Mr. Parks' testimony, the OUCC recommended using an estimate of $104,200.[5] Establishing the cost of replacing Well #5 too low would inhibit Martinsville's ability to support its infrastructure needs, which is counter to the goals of the Settlement. Conversely, setting the cost of replacing Well #5 too high would result in Martinsville's customers paying rates that are not just and reasonable.

To allow Martinsville to obtain the SRF loan amount provided in the Settlement while preserving the OUCC's right to review and provide input regarding the final cost of replacing Well #5, we now create a sub-docket, Cause No. 45262-S1. The purpose of Cause No. 45262-S1 is to determine the appropriate amount of OCRA Grant Award proceeds required to replace Well #5 and to then offset Martinsville's total SRF loan by the remaining amount of OCRA Grant Award proceeds. The Commission previously used this regulatory process in Cause No. 45080-S1, in which we authorized Gibson Water, Inc. to increase its Rural Development Loan and reduce its SRF loan. Martinsville and the OUCC are directed to submit an agreed-upon proposed procedural schedule to be used in Cause No. 45262-S1 within 14 calendar days of the issuance of this Order.

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[4] Mr. Parks testified, "Martinsville's engineer estimated the construction cost for each new well at $250,000 with piping, electrical, SCADA, site work, old well decommissioning, and contractor mobilization costs adding another $433,000 or $144,333 per well. To these estimates, Martinsville added 10% for contingencies ($118,300) and 30% for non-construction costs ($390,390). The total estimated project cost for three wells is $1,691,690 or $564,000 per well." Public's Exhibit No. 2, Pages 13-14.

[5] Mr. Parks testified, "In response to OUCC discovery, Petitioner provided a 2019 quotation from Peerless Midwest for $312,590 to install three wells or approximately $104,200 per well." Mr. Parks then recommended that Petitioner reduce its assumed replacement costs based on the Peerless Midwest quotation. Public's Exhibit No. 2, Page 14.

13. <u>Alternative Regulatory Program ("ARP")</u>. If Petitioner elects to participate in the Small Utility ARP in accordance with procedures approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied for Phases I, II, and III are $1,418,131, $1,387,216, and $1,387,216, respectively. Taxes Other Than Income for Phases I, II, and III are $39,436, $40,740, and $42,547, respectively. In addition, Depreciation Expense of $141,025, $211,538, and $282,051 for Phases I, II, and III, respectively, are also eligible expenses to which the Annual Cost Index will be applied. All other components of Petitioner's revenue requirement will remain unchanged. Petitioner may implement the ARP after each Phase. However, Petitioner is encouraged to make its best effort to combine a phased-in rate increase with an annual increase where the two will be close together to limit customer confusion.

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

1. The December 3, 2019 Stipulation and Settlement Agreement, a copy of which is attached to this Order, is approved in its entirety.

2. Petitioner is authorized to increase its rates and charges for water service, across-the-board, in three Phases with the increase for Phase 1 constituting a 6.28% increase in order to increase annual operating revenues by $152,316, for Phase 2 constituting a further 3.16% increase in order to produce additional annual operating revenues by $81,523 and for Phase 3 constituting a further 4.25% increase in order to produce additional annual operating revenues by $112,944.

3. Petitioner is granted a Certificate of Authority to issue additional long-term debt in one or more issues to the SRF or pursuant to competitive sale or private placement at or below competitive market rates and in principal amount not to exceed $6,420,000 as approved in this Order.

4. 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. For Phase 1, such rates and charges shall be effective January 1, 2021. The Phase 2 and Phase 3 schedules shall be effective on January 1, 2022 and January 1, 2023, respectively, subject to approval by the Water and Wastewater Division.

5. The Commission has established Cause No. 45262-S1 to determine the cost of replacing Well #5 and to establish the revised SRF loan, as explained further in Section 12 of the Order. Petitioner and the OUCC shall submit an agreed-upon proposed procedural schedule to be used in Cause No. 45262-S1 within 14 calendar days of the issuance of this Order.

6. Petitioner shall file a true-up report as provided in Paragraph 2j. of the Settlement and consistent with the reduction in its total authorized SRF loan amount determined in Cause No. 45262-S1.

7. In accordance with Ind. Code § 8-1-2-70, Petitioner shall pay the following itemized charges within 20 days from the date of the Order, and prior to placing into effect the rates approved herein, as well as any additional charges that were or may be incurred in connection with this Cause:

Commission Charges:	$ 8,527.87
OUCC Charges:	$ 19,677.99
Legal Advertising Charges:	$ 247.05
Total:	$ 28,452.91

Petitioner shall pay all charges into the Commission public utility fund account described in Ind. Code § 8-1-6-2, through the Secretary of the Commission.

8. In accordance with Ind. Code § 8-1-2-85, Petitioner shall pay a fee equal to $0.25 for each $100 of water utility revenue bonds issued, to the Secretary of the Commission, within 30 days of the receipt of the financing proceeds authorized herein.

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

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

APPROVED: MAY 13 2020

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

Mary M Becerra

Mary M. Becerra
Secretary of the Commission

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF MARTINSVILLE, INDIANA, FOR AUTHORITY TO ISSUE BONDS, NOTES, OR OTHER OBLIGATIONS, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WATER RATES AND CHARGES.	)	**CAUSE NO. 45262**

FILED
December 03, 2019
INDIANA UTILITY
REGULATORY COMMISSION

STIPULATION AND SETTLEMENT AGREEMENT

The City of Martinsville, Indiana ("Martinsville" or "City" or "Petitioner") and the Indiana Office of Utility Consumer Counselor ("OUCC") (collectively, the "Settling Parties"), by their respective counsel, respectfully request the Indiana Utility Regulatory Commission ("Commission") to approve this Stipulation and Settlement Agreement ("Stipulation"). The Settling Parties agree that the terms and conditions set forth below represent a fair and reasonable resolution of the issues described herein, subject to incorporation into a final order of the Commission, which approves this Stipulation without any modification or condition that is not acceptable to the Settling Parties.

1. In this proceeding, this Stipulation follows the Settling Parties' prefiled testimony and attachments, as well as rebuttal testimony with respect to engineering issues. On all other issues, this Stipulation follows the Petitioner's submission of its case-in-chief testimony and reflects Petitioner's acceptance of the OUCC's positions stated in its Settlement Testimony. It coincides with the Settling Parties' filing of supplemental testimony in support of this Stipulation. Since the time of the OUCC's filing of its case-in-chief in this Cause on engineering issues, the parties have engaged in discussions to address items the OUCC has identified in testimony and would have identified in accounting testimony as its primary issues in this Cause. Those interactions have framed the discussions between the Settling Parties, and formed the basis for the Settling Parties to reach agreement on the terms reflected in this

Stipulation. A basic component of each party's willingness to enter this agreement is the overall result that is achieved hereby. The Settling Parties have agreed to concessions on individual issues to which the Settling Parties would not be willing to agree but for the overall result produced by this Stipulation and Settlement Agreement. In other words, each party is agreeing to forego or compromise on positions on individual issues in exchange for the overall result produced collectively by all of the concessions. As set forth below, the parties have negotiated terms that resolve all issues in this proceeding. In most cases, the agreed upon terms are founded upon documented positions that are in the record in this proceeding, including in Settlement Testimony that the Settling Parties have agreed each of them will file in support of this Stipulation.

2. For purposes of settlement of the non-revenue requirement issues, the Settling Parties stipulate and agree as follows:

a. **Establishment of Restricted Account for Tank Maintenance**. Petitioner shall establish a restricted account for tank maintenance and tank painting and shall pre-fund this account in the amount of $140,000. Upon the effective date of Phase I rates, Petitioner will annually record $35,359 into this account to accumulate funds which shall be used only for future tank painting needs.

b. **Tank Maintenance Program**. Petitioner shall develop a tank maintenance program as described in the AWWA Standard G200 Sections 4.3.1.3 and 4.3.1.4 within six (6) months of issuance of the final order in this Cause. Martinsville will provide a copy of this tank maintenance program to the Commission and the OUCC.

c. **Asset Management Plan**. Petitioner shall provide notice to the Commission and the OUCC upon completion of its asset management plan.

d. **Establishment of Restricted Account for Capital Improvements**. Petitioner shall establish a restricted account to fund capital improvements which account shall

be funded, at minimum, in an amount equal to annual depreciation expense included in Petitioner's revenue requirement in this Cause ($141,025 in Phase 1, $211,538 in Phase 2, and $282,051 in Phase 3 and thereafter). Further, to the extent the Environmental Protection Agency ("EPA") pays the costs of replacing filter media which are included in Petitioner's revenue requirement per this Stipulation, the $125,000 provided in the revenue requirement for this expense shall also be deposited into the restricted capital improvement fund to be used to replace aging infrastructure or other capital improvement needs. Martinsville can use the existing "Water Improvement" account for this purpose or a new account could be created.

e. **Annual Reports**. Petitioner shall submit annual reports to the Commission and the OUCC describing its capital improvements funded through its restricted account and its periodic maintenance expenditures for well cleaning, pump repairs, GAC media replacement, tank cleaning, and tank painting.

f. **Proprietary Fund Accounting System**. Beginning before filing its next rate case, but no later than 1/1/2021, Petitioner shall account for water utility transactions using the proprietary (enterprise) fund accounting methodology.

g. **NARUC Uniform System of Accounts**. In connection with paragraph f. above, Petitioner shall review and be aware of the various guidelines and accounts included in the NARUC Uniform System of Accounts ("USoA") and, to the extent possible, use this as a template to set up new accounts needed for the proprietary fund accounting system (assets, liabilities, CIAC, etc.). Further, Petitioner shall create a document showing how its account designations relate (i.e. map) to the NARUC USoA. Finally, Petitioner shall stop recording sales tax receipts and disbursements

as revenues and expenses. Instead, it shall appropriately record these as debits and credits to a sales tax liability account.

h. **Tap Fee**. Within sixty (60) days of a final order being issued in this Cause, Petitioner shall make a 30-day filing to add a tap fee with a boring charged to its authorized tariff on file with Commission.

i. **Well Replacement**. Petitioner's proposed financing shall be approved. With funds supplied through the financing, Petitioner shall replace two of its three wells and agrees that cost savings between its estimated well replacement costs and actual replacement costs, if any, shall be applied to additional water main replacement projects in order to accelerate water main infrastructure replacements.

j. **True-Up Report and Revision of Tariff.** Within thirty (30) days after closing on the State Revolving Fund loan, Martinsville shall file in this Cause a true-up report describing the final terms of the State Revolving Fund loan, the amount of the debt service reserve, and the amortization schedule for the State Revolving Fund loan. Martinsville shall also restate in its true-up report the precise terms of this section of the settlement agreement. Within fourteen (14) calendar days of service of the true-up report, the OUCC shall state whether it objects or disagrees with the true-up report. If there is no objection or disagreement, and if the annual debt service payment on the State Revolving Fund loan differs from the originally estimated total of $136,746, Martinsville shall file with the IURC a revised tariff adjusting the rates to include the final amount of annual interest payments on the State Revolving Fund loan. However, if the actual terms of the financing are such that the debt payment is less than $136,746 per annum, Martinsville need not file a revised tariff if the OUCC states in writing that it considers the difference to be immaterial for purposes

of revising Martinsville's rates. In such case, Martinsville shall file the OUCC's written statement to the extent it has not already been filed by the OUCC. If the cost of the debt is more than $136,746 per annum, Martinsville may, in its sole discretion, elect not to file a revised tariff reflecting a higher interest payment for the State Revolving Fund loan.

3. **Rates.** The Settling Parties stipulate that Petitioner shall be permitted to increase its customer rates as follows: The total increase in revenue requirement shall be calculated to produce an increase in annual operating revenues of $346,784 (including utility receipts tax ("URT")) and a total revenue requirement of $2,873,463. This amount includes $125,000 per year for replacement of filter media and is therefore subject to the restricted capital improvement account established pursuant to Paragraph 2.d. of this Stipulation. The revenue requirement also includes $117,971 per year for debt service reserve associated with Petitioner's proposed financing. The increase in rates shall take place in three steps. 6.28% in Step 1 (for an increase in revenues of $152,317, including URT), to take effect January 1, 2021; 3.16% in Step 2 (for an increase in revenues of $81,523, including URT), to take effect January 1, 2022; and 4.25% in Step 3 (for an increase in revenues of $112,944, including URT), to take effect January 1, 2023.

4. **Expenditures from Debt Service Reserve.** If Martinsville spends any of the funds from its Debt Service Reserve for any reason other than to make the last payment on the underlying, already approved debt, Martinsville will provide a report to the Commission and the OUCC within five (5) business days after such expenditures, stating: (i) how much Martinsville spent from its Debt Service Reserve; (ii) why and on what it spent those funds; (iii) a cite to, and quote from, any applicable loan documents that allow Martinsville to spend funds from its Debt Service Reserve for other purposes; (iv) how Martinsville plans to replenish its Debt Service Reserve; and (v) any cost-cutting activities

Martinsville has implemented to forestall spending any additional funds held in its Debt Service Reserve.

5. **Stipulation Effect, Scope and Approval**. The Stipulation is conditioned upon and subject to its acceptance and approval by the Commission in its entirety without any change or condition that is unacceptable to any Settling Party. Each term of the Stipulation is in consideration and support of each and every other term. If the Commission does not approve the Stipulation in its entirety or if the Commission makes modifications that are unacceptable to any Settling Party, the Stipulation shall be null and void and shall be deemed withdrawn upon notice in writing by any party within 10 days after the date of the final order stating that a modification made by the Commission is unacceptable to the Settling Party.

The Stipulation is the result of compromise in the settlement process and neither the making of the Stipulation nor any of its provisions shall constitute an admission or waiver by any Settling Party in any other proceeding, now or in the future. The Stipulation shall not be used as precedent in any other current or future proceeding or for any other purpose except to the extent provided for herein or to the extent necessary to implement or enforce its terms.

The evidence to be submitted in support of the Stipulation, together with evidence already admitted, constitutes substantial evidence sufficient to support the Stipulation and provides an adequate evidentiary basis upon which the Commission can make any findings of fact and conclusions of law necessary for the approval of the Stipulation.

The communications and discussions and materials produced and exchanged during the negotiation of the Stipulation relate to offers of settlement and shall be privileged and confidential.

The undersigned represent and agree that they are fully authorized to execute the Stipulation on behalf of the designated party who will be bound thereby.

The Settling Parties will either support or not oppose on rehearing, reconsideration and/or appeal, an IURC Order accepting and approving this Stipulation in accordance with its terms.

ACCEPTED and AGREED this 2nd day of December, 2019.

City of Martinsville, Indiana

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