

Memorandum

To: Chairman Huston

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

Date: December 12, 2022

Re: Summary Results of Periodic Review for Calendar Year 2021

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

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

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

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

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

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

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

1. Schererville Municipal Water

Staff conducted a Level 2 review, which includes the collection of data and information beyond that contained in the utility's most recent annual report. For ratemaking purposes municipal utilities do not earn a return on its investment like investor-owned utilities. Rather, municipal utilities revenues are established to be sufficient enough to pay operating expenses, debt service or extensions and replacements, interest expenses, and working capital. Therefore, the authorized revenues must be sufficient to cover total expenses necessary to provide service. Staff concluded that the municipal utility listed above passed the Level 2 threshold standard as described in the GAO. Therefore, no further action is required as outlined in the brief explanations below:

The Level 1 threshold was exceeded by 0.40% based on staff's comparison of authorized revenues (\$6,479,354) approved in Cause No. 42872 (12/14/05) and five purchased water tracker filings compared to actual revenues reported in calendar year 2021 (\$7,153,504). Staff also notes that over the same time frame O&M expenses have increased by more than 75% and extensions and replacements during 2021 was \$75,524 more than approved in Schererville's most recent rate case. When these factors are considered, Schererville reports an \$87,016 deficit in revenues. Furthermore, on November 10, 2022, Schererville explained that although they experienced a jump in revenues during 2021, revenues for 2022 are projected to be within 2.5% of authorized levels. Based on the foregoing, staff believes Schererville may be in need of rate relief, especially if there is a need to maintain the level of capital investments that occurred in 2021.

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

1. Aqua Indiana
2. CWA Authority
3. Citizens Wastewater of Westfield

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

2. Citizens Wastewater of Westfield

On September 20, 2022, staff emailed CWW explaining that a Level 2 periodic review was warranted given CWW's actual return reflected in its 2021 Annual Report exceeded its 7.35% authorized rate of return by 10% or more.

On October 14, 2022, CWW provided more information beyond that contained in the utility's most recent annual report. Staff notes that CWW modified its financial projections from the financial projections provided during last year's Level 2 review. Last year, CWW projected it would fall under the Commission's Level 1 threshold within 2023. However, this year's response pushes that projection out yet another year.

Staff notes that CWW actual results have consistently exceeded Level 1 thresholds for the last four years and although CWW did not provide staff 2022 actual data, CWW states actual results are expected to exceed 10% Level 1 threshold.

Description	2018 Actual	2019 Actual	2020 Actual	2021 Actual*	2022 (Projected) ¹	2023 (Revised Projection)**
Utility Plant In Service	\$ 112,657,198	\$129,591,421	\$143,082,838	\$ 159,664,780		\$ 196,630,000
Accumulated Depreciation	30,339,277	33,266,675	36,736,621	40,585,576		48,438,000
Contributions In Aid of Construction	31,989,027	37,571,210	45,935,800	57,180,521		77,126,000
Advances for Construction	2,495,461	4,233,137	6,359,495	7,338,933		7,449,000
Subtotal	47,833,433	54,520,399	54,050,922	54,559,750		63,617,000
Other (Specify):						
Allocated plant, net	539,645	543,816	852,059	937,980		844,000
Pre-2012 plant settlement versus books	(120,692)	(535,366)	(961,366)	(1,387,366)		(2,133,000)
Rate Base	\$ 48,252,386	\$ 54,528,849	\$ 53,941,615	\$ 54,110,364		\$ 62,328,000
Net Operating Income (NOI)	3,988,315	4,199,825	\$4,420,668	\$4,795,284		4,876,000
ACTUAL Rate of Return (ROR) (NOI / Rate Base)	8.27%	7.70%	8.20%	8.86%		7.82%
IURC Authorized Net Operating Income	\$ 3,766,991	\$ 3,766,991	\$ 3,766,991	\$ 3,766,991		\$ 3,766,991
IURC Authorized Rate Base	51,216,900	51,216,900	51,216,900	51,216,900		51,216,900
IURC Authorized ROR	7.35%	7.35%	7.35%	7.35%		7.35%
Difference between Actual and Authorized ROR	0.91%	0.35%	0.84%	1.51%		0.47%
Actual ROR % Over/Under 10% requires Level 2 review	12.38%	4.72%	11.43%	20.49%		6.37%

¹ CWW's 10/14/22 response indicates calendar year 2022 actual results are expected to be higher than the 10% Level 1 threshold. Staff has requested CWW provide its 2022 projections, but as of the date of this memo, we have not received this information.

*Number are based on CWW's 2021 Annual Report received on 4/29/22.

**Projected ROR increased from CWW's previous response received on 4/11/22 during our 2020 periodic review.

As reflected in the above data, this is CWW's third Level 2 review in the past four years (2018 through 2021). Given CWW's results from 2018 through 2022 have or will result in a Level 2 review, staff determined the history of CWW exceeding its authorized return should be presented for the Commission to determine if additional action should be taken. GAO 2018-1 includes a section titled, "Commission Remedies for Over-Earning Utilities." This section identifies three actions the Commission may take to remedy the situation: informal meetings, audits, and formal investigations. Staff defers to the Commission to determine whether informal meetings, audits, or formal investigations are warranted under the circumstances outlined above.