

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC. FOR APPROVAL OF (A) A NEW DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (“DSIC”) PURSUANT TO IND. CODE CHAP. 8-1-31; (B) A NEW RATE SCHEDULE REFLECTING THE DSIC; AND (C) INCLUSION OF THE COST OF ELIGIBLE DISTRIBUTION SYSTEM IMPROVEMENTS IN ITS DSIC) CAUSE NO. 42351 DSIC 13 APPROVED: MAR 21 2022

ORDER OF THE COMMISSION

Presiding Officers:

David E. Ziegner, Commissioner

Brad J. Pope, Administrative Law Judge

On January 19, 2022, Indiana-American Water Company, Inc. (“Indiana-American” or “Petitioner”) filed with the Indiana Utility Regulatory Commission (“Commission”) its Petition for approval of a new distribution system improvement charge (“DSIC”) pursuant to Ind. Code ch. 8-1-31 and 170 IAC 6-1.1. In support of its Petition, Indiana-American filed the direct testimony of Gregory D. Shimansky, Director, Rates & Regulatory for Indiana-American, and Stacy S. Hoffman, Director of Engineering for Indiana-American.

On February 18, 2022, the Indiana Office of the Utility Consumer Counselor (“OUCC”) filed its Report in response to Indiana-American’s DSIC application, which included the testimony of Margaret A. Stull, Chief Technical Advisor in the Water/Wastewater Division, and Carl N. Seals, Assistant Director in the Water/Wastewater Division.

On February 25, 2022, Indiana-American filed the rebuttal testimony of Mr. Shimansky, accepting certain recommendations of the OUCC, further clarifying the application of the DSIC to certain customers, and updating the calculation of the DSIC charge and the revised tariff, and the rebuttal testimony of Mr. Hoffman, responding to certain recommendations of the OUCC.

The Commission held an Evidentiary Hearing in this Cause on March 7, 2022, at 10:30 a.m. in Room 222 of the PNC Center, 101 W. Washington Street, Indianapolis, Indiana. Petitioner and the OUCC appeared and participated at the hearing at which the testimony and exhibits of Petitioner and the OUCC were admitted into evidence without objection. Mr. Hoffman was also present and available for cross-examination by the OUCC.

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

1. Notice and Jurisdiction. Due, legal, and timely notice of the public hearing in this Cause was given and published as required by law. Petitioner also provided notice of its filing in this Cause to its wholesale customers pursuant to 170 IAC 6-1.1-4. Petitioner is a “public utility”

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

within the meaning of that term in Ind. Code § 8-1-2-1. Under Ind. Code ch. 8-1-31 and 170 IAC 6-1.1, the Commission has jurisdiction over a public utility's DSIC request. As such, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. Petitioner's Characteristics. Petitioner is an Indiana corporation engaged in the business of rendering water utility service to customers in numerous municipalities and counties throughout the State of Indiana for residential, commercial, industrial, public authority, sale for resale, and public and private fire protection purposes. Petitioner also provides sewer utility service in Clark, Delaware, Hamilton, Wabash, and Vigo Counties.

3. Relief Requested. Petitioner seeks approval of a DSIC pursuant to Ind. Code ch. 8-1-31, a new rate schedule reflecting the DSIC, and approval of the costs of the eligible Distribution System Improvements ("Improvements") in Petitioner's DSIC. As a result of the Commission's June 26, 2019 Order in Petitioner's last general rate case in Cause No. 45142 (the "2019 Rate Order"), Petitioner's DSIC charge was reset to zero effective July 1, 2019. Petitioner's most recent DSIC was approved in Cause No. 42351 DSIC 12 on March 17, 2021 (the "DSIC 12 Order").

In this Cause, Petitioner is proposing to add to the DSIC 12 surcharge, as approved in the DSIC 12 Order, an additional surcharge to include non-revenue producing projects that were completed and placed in service after November 30, 2020. None of the non-revenue producing projects included in this DSIC filing have been previously included in Commission approved rate base. Petitioner initially proposed a DSIC surcharge per equivalent 5/8-inch meter of \$3.20 to produce total annual DSIC revenues of \$15,308,482. In responding to the OUCC's Report, Petitioner accepted certain recommendations of OUCC witness Stull and updated its calculation of the proposed monthly DSIC charge to \$3.17 per equivalent 5/8-inch meter to produce total annual DSIC revenues of \$15,187,447.

4. Petitioner's Direct Evidence. Petitioner presented the testimony and attachments of Mr. Shimansky and Mr. Hoffman.

A. Calculation of DSIC 13. Mr. Shimansky explained the filing requirements for the DSIC and Petitioner's calculation of the proposed DSIC. He also sponsored Petitioner's proposed DSIC rates. He stated that Petitioner has a DSIC surcharge in effect that was approved in the DSIC 12 Order. He explained that as part of the Settlement approved by the 2019 Rate Order, the settling parties agreed to a reduction of \$40 million to Petitioner's proposed end of test year rate base, to consist of non-DSIC eligible assets. He stated that Petitioner agreed to invest more than \$114,004,218 (excluding costs of removals and retirements) in distribution system improvements during the period between November 30, 2017 and April 30, 2020. He explained Petitioner agreed that its next DSIC application "shall only include distribution system improvement costs that exceed the \$114,004,218 (excluding costs of removals and retirements) projected to be made during the period between November 30, 2017 and April 30, 2020." Pet. Ex. 1 at 6. He testified this DSIC filing captures the assets that were placed in service from after November 30, 2020, and do not include any assets or expenditures closed before April 30, 2020.

Mr. Shimansky then discussed how Petitioner calculated the Net Investor Supplied DSIC Additions. He stated that Petitioner started with DSIC Improvements of \$74,893,988, which he

reduced by the amount of related plant retirements (shown on Pet. Ex. 1, Attach. GDS-2, Sch. 1, Line 1), consistent with the DSIC 8 Order. The amount of retirements from December 1, 2020 through November 2021, as shown on Pet. Ex. 1, Attach. GDS-2, Sch. 1, Line 2, was \$6,891,821. Retirements were further adjusted for the actual amount of the cost of removal, net of salvage, of \$11,629,578. He stated that there were total reimbursements from the Indiana Department of Transportation (“INDOT”) and others in the amount of \$1,401,616. He testified that these reimbursements were removed from the DSIC Improvements, resulting in Net Investor Supplied DSIC Additions of \$78,230,129, as shown on Pet. Ex. 1, Attach. GDS-2, Sch. 1, Line 5.

Mr. Shimansky explained that the rate of return used in this proceeding is Petitioner’s weighted average cost of capital based on the most recent data available through November 20, 2021. He testified the long-term debt cost rate used in this calculation is 4.74%. The common equity rate of return is 9.80%, as approved in the 2019 Rate Order. The weighted average cost of capital used is 6.22% after tax. Attachment GDS-2, Schedule 5 to Mr. Shimansky’s direct testimony shows the derivation of the weighted cost of capital of 6.22% and the pre-tax rate of return of 7.84%. Also shown on Attach. GDS-2, Sch. 5 to his direct testimony is Petitioner’s calculation of a gross revenue conversion factor of 136.5443%, calculated using those taxes and fees that will be in effect during the time the DSIC revenues are billed. He testified these taxes, fees, and expenses are the Utilities Receipts Tax of 1.4%, the IURC Fee of 0.1202%, Uncollectible/Bad debt rate of 1.0167%, the State Income Tax of 4.9%, and the Federal Income Tax of 21%. He testified that the gross revenue conversion factor was multiplied by the weighted cost of the non-debt components of the capital structure to determine the pre-tax return of 7.84%.

Mr. Shimansky testified that Petitioner determined its depreciation expense of \$1,534,600 by using the annual depreciation rates by primary plant account previously approved by the Commission, multiplied by the Improvements, net of related retirements. He further testified the depreciation rates used were those that were approved by the Commission in Cause No. 44992 and made effective with the rate increase approved by the Commission in the 2019 Rate Order.

Mr. Shimansky testified and provided schedules showing that the combined revenues of DSIC 12 and DSIC 13 that are to be considered when comparing against the 10% revenue cap are \$12,116,671, which do not exceed 10% of Petitioner’s base revenue level. He also explained that per applicable state law, the DSIC surcharge will be applied as a monthly fixed charge based upon meter size. He further explained how the monthly surcharge of \$3.20 per equivalent 5/8-inch meter to produce total annual DSIC revenues of \$15,308,482 was calculated.

B. Description of DSIC Improvements. Mr. Shimansky and Mr. Hoffman outlined Petitioner’s compliance with the Commission’s DSIC rules in 170 IAC 6-1.1. Mr. Hoffman sponsored Pet. Ex. 2, Attach. SSH-1, which provides a summary of costs for non-blanket and blanket project categories, and Attachments SSH-2 and SSH-3, which provide the list of projects included in this DSIC. Attachment SSH-2 lists non-blanket projects individually by project number, with project description, the date placed in service, the project purpose, the resulting benefits, the applicability of easements, the range of age of plant retired, pipe diameters, pipe length, and the total costs incurred. Attachment SSH-3 lists statewide blanket projects by project number with project description, the project purpose, the resulting benefits, the range of age of plant retired, and the total costs incurred. Attachment SSH-3 also lists quantities of blanket project assets replaced and retired, including lead service lines. Attachment SSH-4 lists all projects

with additional cost detail by utility account. Attachment SSH-5 lists all projects with retirement cost detail by utility account. Attachment SSH-6 lists all projects with cost of removal and salvage detail by utility account. Mr. Hoffman stated that Petitioner has invoices and other cost support for all projects listed in Attachments SSH-2 and SSH-3.

Mr. Hoffman testified that Attachment SSH-10 lists quantities and cost information for lead service line replacements and retirements (“LSLR”) from 2017 through November 2021 to provide an update on Petitioner’s LSLR program approved in Cause No. 45043. Attachment SSH-11 separately summarizes main relocation projects and lead service line projects from Attachments SSH-2 and SSH-3, Part 1. He explained these projects are separately delineated because DSIC costs associated with lead service line replacements and with relocations are not subject to the 10% cap on total DSIC revenues.

Mr. Hoffman generally described the types of projects included in Attachments SSH-2 and SSH-3. He explained that all the Improvements included in this Cause are replacement infrastructure, reinforcement projects, and distribution system retirements. He stated that replacement infrastructure includes water mains, tanks, tank coating systems, valves, hydrants, service lines, and meters. He explained that a portion of the replacement infrastructure is associated with right-of-way improvements projects wherein the location of Indiana-American infrastructure directly conflicted with other public infrastructure improvement projects like road and sewer projects. Other projects included replacement of obsolete water mains, tanks, tank coating systems, hydrants, valves, meters, and service lines that are in poor condition or hydraulically deficient for providing adequate service including public fire protection. He further explained that reinforcement infrastructure consists of mains, valves, and hydrants with the purpose of improving pressure, and fire flow and service reliability of the existing distribution system. He testified that all the retirements associated with the new infrastructure were recorded on Indiana-American’s books and records as of the date of Petitioner’s filing. He also testified that no costs of removals were estimated. Mr. Hoffman explained that all the projects listed individually in Attachments SSH-2 and SSH-3 represented eligible DSIC projects, including the blanket categories. He explained the presentation of the blanket projects, noting that blanket categories are used for common, similar activities like replacement meters, service lines, hydrants, and unscheduled main replacements.

Mr. Hoffman testified regarding what types of projects are eligible for inclusion in Petitioner’s DSIC filings. He explained that Petitioner has been involved in 13 DSIC filings and, over the years, the Commission’s Orders have clarified and provided guidance on the types of projects it considers to satisfy the DSIC statute’s requirements.

Mr. Hoffman testified that all Improvements listed in Attachments SSH-2 and SSH-3 meet the DSIC statutory requirements. He stated that none of the projects increase revenues by connecting the distribution system to new customers, all the projects are in service, none of the projects were previously included in rate base, all necessary local, state and federal permits, approvals, and authorizations have been obtained, and there was no affiliate involvement in any of the transactions. He explained that as Director of Engineering, he has familiarity with these projects through regular communication with Indiana-American’s Engineering staff during the planning, design, and construction phases of these projects. Indiana-American’s project managers

also confirm projects are in service through a physical inspection and then enter in-service dates for completed projects in Indiana-American's accounting software system.

He testified that he verified that none of the project costs identified in this Cause were included in rate base in any prior Causes. He explained some of the remaining project costs for projects that were placed in service prior to December 1, 2020, were not included in rate base in any prior Causes because the costs were incurred after the most recent rate base cutoff or because Petitioner had not completed all accounting for these costs by the most recent rate base cutoff.

Mr. Hoffman testified regarding the funding of the Improvements. He stated that projects included in this DSIC 13 were funded by Petitioner or were reimbursed by INDOT or others, as noted by Mr. Shimansky.

Mr. Hoffman stated Petitioner has a five-year Strategic Capital Expenditure Plan that provides for budgeted amounts of approximately \$480,000,000 for replacement mains, reinforcement mains, DSIC tank related work, hydrants, services, and meters for the period 2022-2026. He testified that included in this amount is approximately \$45,000,000 budgeted over the same period for water main replacements required by state and local governments because of road improvements and other projects. He testified that Petitioner would continue to review the planned level of investment and will make adjustments to address priorities for replacement and reinforcement infrastructure.

5. The OUCC's Evidence. The OUCC presented the testimony and attachments of Ms. Stull and Mr. Seals.

Ms. Stull recommended a \$3.17 monthly DSIC per equivalent 5/8" meter. She explained how her calculation of the DSIC differs from Petitioner's calculation. She stated that her calculation excludes \$1,401,616 of contributed plant from the calculation of depreciation expense and reflects the retirement of \$920,668 of tank painting costs incurred in 2007 and related to Project #I10-900065-01 included in this DSIC. She explained why she excluded contribution in aid of construction ("CIAC") from her depreciation expense calculation and described how she determined the depreciation rate applicable to the \$1,401,616 contributions. She also described her calculation of the 10% DSIC revenue cap and explained why she disagrees with the use of total company operating revenues to calculate the 10% cap but has accepted Petitioner's proposal in this Cause. Finally, Ms. Stull discussed the application of DSIC to former customers of the Town of Lowell and River's Edge. She explained while Petitioner's tariff does not make this clear, she does not believe it intends to charge either Lowell or River's Edge customers its proposed DSIC 13 charge. She testified that Lowell and River's Edge customers should not be billed a DSIC charge.

Mr. Seals discussed DSIC spending per customer by district and Petitioner's average cost of hydrant replacement as compared to other utilities. He presented a table comparing Petitioner's spending per customer on non-blanket DSIC eligible expenditures among the districts to DSIC 13 spending per customer on non-blanket DSIC eligible expenditures. He said the expenditures in one DSIC case does not indicate a trend, but nevertheless recommended the Commission require Indiana-American to track and report current and historical DSIC expenditures per customer and by district and provide that information in its next DSIC application. He also examined Petitioner's

average cost of hydrant replacement. He stated Petitioner's testimony and responses to data requests indicate a high average cost per hydrant replacement in 2020 and 2021. Mr. Seals testified that Petitioner's testimony and responses to data requests indicate an average cost per hydrant replacement in 2020 of \$12,825 and in 2021 of \$14,989. Based on his internet research of other utilities, Mr. Seals stated that Indiana-American's cost of hydrant replacement is the second highest of the nine identified and is 1.89 times the average of the non-Indiana-American records he was able to locate. He recommended that Indiana-American benchmark its hydrant replacement costs in each of Indiana-American's DSIC filings for current and prior DSICs and evaluate how it can better use its economies of scale to perform hydrant replacements at lower costs to benefit its more than 300,000 ratepayers.

6. Petitioner's Rebuttal Evidence. Mr. Shimansky testified on rebuttal that Petitioner reviewed and accepts Ms. Stull's reduction to depreciation expense of \$24,075 and adjustments to retirements resulting in total retirements of \$7,812,489. He explained the adjustments result in a monthly DSIC charge of \$3.17 per equivalent 5/8-inch meter to produce total annual DSIC revenues of \$15,187,447.

Mr. Shimansky clarified Petitioner's intentions regarding the application of the DSIC charge to customers of the former Lowell and River's Edge systems. He testified that Petitioner does not entirely agree with Ms. Stull's recommendation regarding application of the DSIC to these customers. For purposes of this proceeding, however, he stated that Petitioner accepts the exclusion of these customers from the DSIC. He explained that since Petitioner has not proposed to subject the Lowell or River's Edge systems to the DSIC in this case, this debate is more academic at this point. He testified that he could envision circumstances where an acquired system for which Petitioner has set up a different rate group should be subject to the DSIC charge on a going-forward basis.

Mr. Hoffman testified on rebuttal that he believes Mr. Seals' recommendations regarding tracking and reporting DSIC expenditures per customer and per district are unnecessary and burdensome, since Petitioner already provides all of the information that is needed to review for historical trends or otherwise. He agreed with Mr. Seals that one cannot discern a trend from one DSIC case, and that investment dollars are not a precise indicator of the benefits received by customers in each district. He also noted that Petitioner employs its capital investment planning and prioritization modeling to determine which investments to make and at what time. He indicated that Petitioner's DSIC filing complies with the Commission's established rules for a DSIC filing and that additional requirements would be inappropriate to impose absent a rulemaking. He also testified that, as demonstrated in Mr. Seals' testimony, the evidence presented in Petitioner's case-in-chief permits a party to track Petitioner's spending by district as well as permits a party to examine the costs applicable in its hydrant replacements.

Mr. Hoffman also responded to Mr. Seals' recommendations regarding hydrant replacement costs. He testified that Petitioner already evaluates how it can achieve the replacement of all infrastructure at the lowest reasonable cost, so he is not certain what Mr. Seals is recommending that Petitioner be ordered to do that it is not already doing. He explained the category of blanket hydrant replacements does not lend itself to the type of benchmarking that Mr. Seals has attempted. He stated the numbers Mr. Seals used in his comparison do not appear to be directly comparable, for instance, as Indiana-American's figures include both hydrant and valve

replacements, which are charged to the same account. In addition, the breakdown between installation or replacement of hydrants, hydrant valves, and hydrant laterals for the figures given and used in Mr. Seals' analysis were not available from the information he provided, and he does not identify details on what other costs may or may not be included in the numbers he found.

Mr. Hoffman testified that hydrant installation costs are not comparable to blanket hydrant replacement cost, as the latter involve existing hydrant, existing infrastructure, utilities, paving, traffic control, and safety requirements that can be significant and variable. He explained there is a significant difference between replacement of a hydrant, valve, and lateral as part of a water main project versus a stand-alone hydrant replacement on an existing main. He stated blanket hydrant replacements are replacements on existing mains, which can materially affect the apparent hydrant cost for items such as mobilization, traffic control, restoration, dewatering, and other work. He ultimately concluded neither of Mr. Seals' recommendations warrants becoming the subject of an order in this Cause. He stated that if the Commission requires more from Petitioner in its case-in-chief, an amendment to its DSIC rules would be needed.

7. Commission Discussion and Findings.

A. DSIC Requirements and Calculation. Ind. Code ch. 8-1-31 requires the Commission to approve a DSIC to allow a water utility to adjust its basic rates and charges to recover a pre-tax return and depreciation expense on eligible infrastructure improvements. Ind. Code § 8-1-31-5 defines eligible infrastructure improvements for water distribution infrastructure of a public utility as new, used, and useful water utility plant projects that:

- (a) do not increase revenues by connecting to new customers;
- (b) are in service; and
- (c) were not included in the public utility's rate base in its most recent general rate case.

Under Ind. Code § 8-1-31-6, the rate of return allowed on eligible infrastructure improvements is equal to the public utility's weighted cost of capital. Ind. Code § 8-1-31-12 provides that the cost of common equity to be used in determining the weighted cost of capital shall be the most recent determination by the Commission in a general rate proceeding of the public utility unless the Commission finds that such determination is no longer representative of current conditions.

Furthermore, in 2017, the Indiana Legislature passed House Enrolled Act 1519, which changed how the DSIC surcharge is to be calculated. In the past, the surcharge was to be calculated as a percentage that was applied to both the consumer's volumetric and metered service charge revenues for all rate groups. Now, Ind. Code § 8-1-31-8, as amended by P.L. 91-2017 (effective July 1, 2017), states as follows:

Sec. 8. (a) Except as provided in subsection (d), an eligible utility may file with the commission a petition setting forth rate schedules establishing an amount that will allow the adjustment of the eligible utility's basic rates and charges to provide for recovery of infrastructure improvement costs. **The adjustment shall be calculated as a monthly fixed charge based upon meter size.** (Emphasis added.)

As a result, Petitioner is now required to calculate the surcharge applicable to the total DSIC revenue requirement as a fixed charge based upon a meter equivalency size.

B. Approval of Proposed DSIC. The only issues in dispute in this Cause affecting the DSIC to be charged are the determination of depreciation expense and the exclusion of contributed plant for purposes of the DSIC. In its rebuttal testimony, Indiana-American resolved these concerns by agreeing with and accepting the OUCC's adjustments.

Based on the evidence presented, Petitioner's requested relief as modified in rebuttal should be approved. We find the total cost for the additional net investor supplied DSIC Additions is \$61,845,729. Pet. Ex. 1-R, Attach. GDS-R1, Sch. 1. We find the pre-tax return associated with those additions, as calculated in accordance with Ind. Code ch. 8-1-31, is 7.84%. Pet. Ex. 1 at 9, 13. The total DSIC 13 revenue requirement is \$15,187,447 (the combined total of DSIC 12 and additional revenues of DSIC 13), which includes revenues not used to calculate the 10% cap established by Ind. Code § 8-1-31-13(a). Pet. Ex. 1-R at 4-5. Accordingly, the total revenue requirement associated with the DSIC 13 Improvements applicable to the revenue cap is below 10% of the revenues authorized in Petitioner's last rate case. Therefore, the DSIC to be established in this proceeding is not subject to reduction under Ind. Code § 8-1-31-13.

Furthermore, the evidence shows that all the projects are in service, do not result in the addition of new customers to Petitioner's system, and fall into the NARUC Uniform System of Accounts for Water Utilities Accounts 303, 304, 310, 330, 331, 333, 334, or 335. As such, they are eligible for inclusion in a DSIC.

The evidence further shows that Petitioner calculated the DSIC surcharge in this proceeding as a monthly fixed charge based upon meter size, as required by amended Ind. Code § 8-1-31-8. Specifically, Petitioner proposes a new DSIC 13 monthly surcharge of \$3.17 per equivalent 5/8" meter as set forth in Pet. Ex. 1-R, Attach. GDS-R1, Sch. 2.

Based on the evidence presented, the Commission finds that Petitioner's request for a DSIC complies with the requirements of Ind. Code ch. 8-1-31 and 170 IAC 6-1-1. Further, Petitioner's proposed DSIC is non-discriminatory, reasonable, and just. Accordingly, we find that Petitioner is authorized to collect from each of its present and future water customers, excluding the former customers of the Town of Lowell and River's Edge, a monthly DSIC of \$3.17 per equivalent 5/8" meter as set forth in Attachment GDS-R1 to Mr. Shimansky's rebuttal testimony.

C. Reconciliation of Petitioner's DSIC. Petitioner should be prepared to reconcile the DSIC approved by this Order in the manner prescribed by Ind. Code § 8-1-31-14 and 170 IAC 6-1-1-8. Under Ind. Code § 8-1-31-14, at the end of each 12-month period a DSIC is in effect the difference between the revenues produced by the DSIC and the expenses and the pre-tax reflected in it should be reconciled and the difference refunded or recovered as the case may be through adjustment of the DSIC.

D. Application of the DSIC to Certain Customers. The evidence presented reflects that the customers of the former Lowell and River's Edge systems are not currently being charged the DSIC surcharge. Ms. Stull testified that Petitioner's tariff does not make this clear. She explained that Indiana-American's tariff indicates that the fixed charge, which is subject to

the DSIC, applies to all metered general water service and sale for resale customers, who pay a customer charge based on the size of the meter. However, she stated that she did not believe Indiana-American intended to charge Lowell and River's Edge customers its proposed DSIC 13 charge. In his rebuttal testimony, Mr. Shimansky confirmed that Petitioner does not intend to apply the DSIC charge resulting from this Order to those customers.

We note that Indiana-American's tariff has no specific exception to the collection of the DSIC charge from Lowell or River's Edge customers. As those groups of customers are stand-alone customers from a ratemaking perspective, we agree that Indiana-American's current practice of not charging those customers a DSIC should continue at this time. We further find Indiana-American should amend its tariff to the extent it fails to clearly exclude Lowell and River's Edge customers from imposition of the DSIC.

E. Indiana-American's Hydrant Replacement Costs. Mr. Seals discussed Indiana-American's DSIC spending per customer by district and Petitioner's average cost of hydrant replacement relative to other utilities. He presented a table comparing Petitioner's spending per customer on non-blanket DSIC eligible expenditures among the districts to DSIC 13 spending per customer on non-blanket DSIC eligible expenditures. He noted that expenditures in one DSIC case do not indicate a trend. As such, he recommended the Commission require Indiana-American to track and report current and historical DSIC expenditures per customer and by district and provide that information in its next DSIC application. Mr. Seals also examined Petitioner's average cost of hydrant replacement. He testified that Petitioner's testimony and responses to data requests indicate a high average cost per hydrant replacement in 2020 of \$12,825 and in 2021 \$14,989. He recommended Indiana-American benchmark its hydrant replacement costs and evaluate how it can better use its economies of scale to perform hydrant replacements at lower costs to benefit its more than 300,000 ratepayers.

During cross-examination by the OUCC, Mr. Hoffman suggested that the information Mr. Seals relied on to calculate the average charge per customer included not only hydrant replacements costs under the Uniform System of Accounts (Account 335) but also valves other than hydrant valves, which should be in Account 331. Mr. Hoffman explained that Indiana-American's practice has been to include hydrants and valves together in the hydrants blanket work order. He stated that he did not realize Mr. Seal's average hydrant cost included the cost of other valves until after Indiana-American submitted its rebuttal and after Indiana-American responded to OUCC DR 6-1 on March 3, 2022. Mr. Hoffman acknowledged that he did not calculate Indiana-American's average cost for replacing hydrants but suggested that the Excel documents attached to his testimony may allow that cost to be isolated and determined. Without having performed that calculation, Mr. Hoffman speculated that it might reveal it was a third of the amount of the average calculated by Mr. Seals.

Among the Excel documents attached to Mr. Hoffman's testimony, Attachments SSH-4 and SSH-6 show Indiana-American's hydrant replacement costs for both blanket and non-blanket work orders, including additions and cost of removals respectively. The costs reflected in Attach. SSH-4 tie to the Account 335 values in Attach. GDS-2, Schedule 3, included with Mr. Shimansky's testimony. However, of the hydrant values indicated in Attachments SSH-4 and SSH-6, there is

only transparency on the blanket work orders.¹ Attachment SSH-4 shows that the total cost of blanket work order hydrant replacements, not including removal costs, is \$2,684,281 (Cell I564). Attachment SSH-3, Part 2 shows Indiana-American replaced 296 hydrants (Cell E9). Dividing the \$2,684,281 cost of hydrant replacements, which did not include removal costs, by 296 hydrants results in a per hydrant cost of \$9,068.52. We note that the total removal costs for hydrants is \$1,184,206 (Attach. SSH-6, Cell F581) and divided by 296 hydrants results in a per hydrant cost of \$4,000.70. As such, including removals, Indiana-American's total per hydrant replacement costs is \$13,069.22.

During cross-examination of Mr. Hoffman, the OUCC presented excerpts from valuation studies used in recent acquisitions, which indicate hydrant replacement costs before depreciation of \$5,040 for the Town of Lowell (Public's CX-2) and \$5,500 for the Town of Charleston (Public's CX-3). With or without removal costs, Indiana-American's average cost of replacing and installing hydrants is significantly higher than those values. In this case, the OUCC did not oppose Indiana-American's inclusion of its hydrant costs, but it did recommend that Indiana-American evaluate its procurement methods and costs to secure lower unit costs to benefit its ratepayers.

As a result of this inquiry, we direct Indiana-American to present its valves replacements in Account 331 of the Uniform System of Accounts separately from its presentation of hydrant replacements unless the valve replacement is part of a hydrant replacement under Account 335 of the Uniform System of Accounts. Petitioner shall also present the total number of non-blanket hydrants that it replaces, in addition to its currently reported blanket hydrant replacements. By so doing, the OUCC will be able to properly calculate Petitioner's true average hydrant replacement cost. We note that Indiana-American already breaks out some of its valve replacements as a separate line item, as it did in Attachment SSH-3, Part 1.

We decline to adopt the OUCC's recommendation that Indiana-American explain why it is not able to replace and install hydrants at a lower average cost in its next DSIC or next base rate case. We find that the OUCC's hydrant cost comparisons cannot be reasonably relied upon because its calculation of Petitioner's average hydrant cost includes "other valve costs" and it is unclear what costs are or are not included in the OUCC's sample size of other utilities' hydrant installation costs, which are different from hydrant replacement costs, as discussed by Mr. Hoffman in rebuttal. Similarly, CX-2 and CX-3 presents certain hydrant replacement cost numbers without indicating the calculations or assumptions underlying them. In addition, we find that Petitioner has shown that it takes prudent steps and uses appropriate methods to secure low-cost hydrants via a national supply contract and bids out contract work.

¹ Attachment SSH-3, Part 2 provides the number of hydrants replaced for the blanket work orders, but no information was provided to indicate the number of hydrants replaced through non-blanket work orders.

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

1. A Distribution System Improvement Charge calculated as a fixed charge by meter size and designed to generate total annual DSIC revenues of \$15,187,447 is approved.

2. Prior to implementing the above-authorized DSIC, Indiana-American shall file under this Cause Petitioner's Exhibit No. 1-R, Attachment GDS-R2 as an appendix to its schedule of rates and charges for water service for approval by the Commission's Water/Wastewater Division.

3. The above-authorized DSIC shall be subject to reconciliation as described in Section 7.C. above.

4. Indiana-American shall comply with our directive with respect to its valves replacements presentation as set forth in Section 7.E. above.

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

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

APPROVED: MAR 21 2022

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

**Dana Kosco
Secretary of the Commission**