ORIGINAL

Commissioner	Yes	No	Not Participating
Huston	√		
Freeman	√		
Krevda	√		
Ziegner	√		

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF SANITARY COMMISSIONERS OF THE SANITARY DISTRICT OF THE CITY OF EAST CHICAGO, INDIANA, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WASTEWATER RATES AND CHARGES	)	**CAUSE NO. 45632** **APPROVED: JUN 28 2022**

ORDER OF THE COMMISSION

Presiding Officers:
David E. Ziegner, Commissioner
Carol Sparks Drake, Senior Administrative Law Judge

On October 22, 2021, the Board of Sanitary Commissioners of the Sanitary District of the City of East Chicago, Indiana, ("ECSD" or "Petitioner") filed a Verified Petition ("Petition") with the Indiana Utility Regulatory Commission ("Commission"). In its Petition, ECSD requested the Commission: (1) authorize an increase in Petitioner's rates and charges for wastewater service; (2) approve new schedules of wastewater rates and charges reflecting ECSD's proposed rate increase; and (3) make such further orders as the Commission deems appropriate. That same date, ECSD prefiled direct testimony and exhibits from the following witnesses:

- Kenneth L. Myers, ECSD's Director of Wastewater Operations
- Andre J. Riley, Certified Public Accountant and Director with Baker Tilly Municipal Advisors, LLC.

Multiple revised and/or supplemental workpapers for Mr. Riley were subsequently filed.

On December 28, 2021, the ECSD Industrial Group ("IG") petitioned to intervene, and IG's petition was granted on January 6, 2022.[1]

A public field hearing was held on January 11, 2022, in East Chicago, Indiana, the largest municipality in ECSD's service area. At the field hearing, the public was afforded the opportunity to provide oral and/or written submissions to the Commission.

[1] For purposes of this proceeding, the members of the IG include Cleveland-Cliffs Inc, USG Corporation, and Linde.

The Indiana Office of Utility Consumer Counselor ("OUCC") prefiled its case-in-chief on February 9, 2022, including testimony and exhibits from the following OUCC employees:

- Carla F. Sullivan, Utility Analyst in the OUCC's Water/Wastewater Division
- James T. Parks, Professional Engineer and Senior Utility Analyst in the OUCC's Water/Wastewater Division
- Shawn Dellinger, Utility Analyst in the OUCC's Water/Wastewater Division.

The IG also prefiled testimony and exhibits on February 9, 2022, from the following consultants:

- Michael P. Gorman, Managing Principal with Brubaker and Associates, Inc.
- Jessica A. York, Associate with Brubaker and Associates, Inc.

On March 9, 2022, the OUCC prefiled cross-answering testimony from Jerome D. Mierzwa, a Principal and Vice President of Exeter Associates, Inc.

On March 11, 2022, Petitioner prefiled rebuttal testimony and exhibits from Messrs. Myers and Riley, with corrected rebuttal testimony subsequently filed for Mr. Myers. On March 25, 2022, ECSD and the IG each filed responses to docket entry questions issued on March 22, 2022.

On March 28, 2022, the parties informally notified the Presiding Administrative Law Judge that a settlement in principle had been reached. At the evidentiary hearing noticed for the following day, March 29, 2022, a brief public hearing was held commencing at 9:30 a.m. in Hearing Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. During this hearing, counsel shared the key terms of the settlement, a schedule for prefiling settlement testimony was discussed, and the public hearing was continued to 1:30 p.m. on May 13, 2022, for purposes of conducting a settlement hearing.

Consistent with the agreed schedule, on April 22, 2022, the OUCC filed settlement testimony from Scott A. Bell, Director of the OUCC's Water/Wastewater Division, and the IG filed settlement testimony from Ms. York. On April 25, 2022, Petitioner filed settlement testimony from Mr. Riley, along with the Joint Stipulation and Settlement Agreement executed on April 21, 2022, (the "Settlement Agreement"). On May 8, 2022, ECSD filed responses to an additional docket entry issued on May 6, 2022.

The settlement hearing in this Cause commenced at 1:30 p.m. on May 13, 2022, in Hearing Room 222 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. ECSD, the OUCC, and IG (collectively, "Parties") appeared, by counsel, and participated in the settlement hearing, and the Parties' testimony and exhibits, including the Settlement Agreement, were admitted without objection.

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

1. <u>Notice and Commission Jurisdiction</u>. Due, legal, and timely notice of the public hearing in this Cause was given and published as required by law, with the hearing properly continued on the record. ECSD is a sanitary district under Ind. Code § 36-9-25-1(a)(2) that is also "under an order or party to an agreement with one or more state or federal agencies to remediate environmental conditions," as set forth in Ind. Code § 36-9-25-11.3(a)(2) and is subject to the jurisdiction of the Commission as provided by Indiana law. Under Ind. Code § 36-9-25-11.3(d)(2)(B), the Commission has authority to establish rates for Petitioner and, therefore, has jurisdiction over ECSD and the subject matter of this proceeding.

2. <u>Petitioner's Characteristics</u>. Petitioner provides municipal wastewater services within the East Chicago Sanitary District to approximately 30,000 residents and a number of businesses.[2] ECSD owns and maintains wastewater disposal facilities, including a wastewater collection system and approximately 72 miles of pipes, two combined lift stations, three storm water lift stations, three sanitary lift stations, and three storm relief stations.

3. <u>Relief Requested</u>. Petitioner's existing wastewater rates were established under Rate Ordinance No. 15-0023 adopted by the Common Council of the City of East Chicago on November 23, 2015. ECSD initially sought authority to increase its rates approximately 37.76% over three phases. On rebuttal, Petitioner's requested increase for Phase I was reduced from 14.40% to 14.24%. The Phase II rate increase was reduced from 15.91% to 15.77%, and the Phase III rate increase was reduced from 3.89% to 3.77%.

4. <u>Test Year</u>. The test year used for determining Petitioner's actual and pro forma operating revenues, expenses, and operating income under present and proposed rates is the 12-month period ended December 31, 2019, adjusted for changes that are fixed, known, and measurable and will occur within 12 months following the end of the test year. The Commission finds this test year is sufficiently representative of ECSD's normal operations to provide reliable data for ratemaking purposes.

5. <u>Evidence of Record</u>.

A. <u>ECSD's Direct Evidence</u>. Mr. Myers advised he began working for ECSD in 2016 and has been its Director of Wastewater Operations since May 2021. He described ECSD's facilities, expenses, including operational and personnel expenses, and needed system improvements. These improvements include repairs to the Alder Street Lift Station, as well as sewer replacement.

Mr. Myers testified ECSD has been under a Long-Term Control Plan ("LTCP") with the Indiana Department of Environmental Management ("IDEM") since 2007. He stated Phase I of the LTCP is complete and included eliminating a cross-connection between a main combined sewer and a dedicated storm sewer, replacing pumps at the 145th Street Lift Station, and partial installation of sewer main and metering pit for the wastewater treatment plant ("WWTP") for the planned conveyance of increased Combined Sewer Overflow ("CSO") influent after Phase II improvements at the Alder Street Lift Station. He stated some of the projects under Phase II of ECSD's LTCP with IDEM are intended to prevent CSOs. These projects include upgrades to the 145th Street, Alder Street, and Roxana Lift Stations and construction of conveyance facilities to the WWTP and CSO Lagoon.

[2] Lake County has approximately 485,000 residents.

Mr. Myers testified ECSD secured a Bond Anticipation Note ("BAN") in June 2020 that Petitioner used, along with held-over 2015 Bond proceeds, to secure an agreement with Kokosing Industrial, Inc. ("Kokosing") to begin constructing the Phase II LTCP projects. Petitioner intends to pay off this BAN using funds borrowed from the State Revolving Fund ("SRF"). Mr. Myers testified the various projects identified in Petitioner's exhibits are known and identified needs, but it is possible other priorities and needs may arise that will also require funds.

Mr. Myers stated ECSD's last rate increase was approved by the East Chicago City Council in 2015, and ECSD began implementing those new rates throughout 2016. He testified ECSD has some of the lowest average monthly residential sewer rates at just under $21.00. He advised that if Petitioner's requested increase is approved, the average monthly bill for a customer using 5,000 gallons per month will be approximately $32.00, well below the statewide average of approximately $49.00 per month.

Mr. Riley, a municipal advisor with Baker Tilly Municipal Advisors, LLC, testified he was retained by Petitioner to complete a financial study to determine the cost-of-service rates and charges necessary to support the pro forma revenue requirements and to make recommendations regarding rate changes. Mr. Riley performed a cost-of-service study that he provided as an exhibit, and he included relevant schedules.

Mr. Riley explained the primary drivers for the requested rate increase are: (1) the need to issue long-term debt to pay off the aggregate par amount of $8,300,000 Outstanding Sanitary District Revenue Bond Anticipation Notes of 2020 (the "2020 BAN"); (2) the allowance for replacements and improvements, and (3) the need to provide for the pro forma operation and maintenance requirements.

Mr. Riley testified some of the projects within the 2020 BAN are time sensitive because of the agreement Petitioner is under with IDEM. The agreement addresses Petitioner's violation of its National Pollutant Discharge Elimination System Permit under the U.S. Environmental Protection Agency's Clean Water Act due to CSO influent into the Grand Calumet River and Indiana Harbor Ship Canal. He stated the agreement addresses the violations through a LTCP under which capital improvements are made to Petitioner's sewer system. Mr. Riley stated the 2020 BAN, plus the remaining proceeds from the 2015 Revenue Bonds, will fund Phase II of the LTCP, deferring to Mr. Myers to describe the nature of these improvements. Mr. Riley stated he used the amount of funding ECSD needed in the 2020 BAN in the debt service calculation. This was calculated by taking the amount of the Guaranteed Maximum Price ("GMAX") under the agreement with Kokosing to finance the LTCP projects ($12,232,000), along with non-construction costs ($819,882), for a total of approximately $13,052,000 (rounded). From this total, the proceeds remaining from the outstanding 2015 Revenue Bonds ($4,752,000) were subtracted, leaving ECSD needing $8,300,000 from the 2020 BAN to cover the LTCP projects.

Mr. Riley testified he used a test year ending December 31, 2019, combined with pro forma adjustments, receipts, and disbursements, because it fairly represents Petitioner's current and future operations and avoids using any part of 2020. He stated an overall increase of approximately 37.76% is justified, and he proposed this increase be phased in over three years. He also proposed each class and customer have its own unique percentage increase. Mr. Riley explained the adjustments he made to the pro forma annual cash operating disbursements to reflect current price levels for labor, current and future staffing levels, employee benefits, purchased power, contractual services, and sludge removal, among others.

Utilizing these calculations and adjustments, Mr. Riley testified the total revenue requirement in Rate Phase I is $8,491,063 and is $9,841,883 in Rate Phase II and $10,224,705 in Rate Phase III. Mr. Riley proposed the increases for Rate Phases II and III be based on an across-the-board increase over the Rate Phase I rates and charges, and these be increased based on the cost-of-service study. To provide revenues to meet these requirements, Mr. Riley stated Petitioner proposes its wastewater rates and charges be increased overall by 14.41% effective September 1, 2022, or upon approval by the Commission of Rate Phase I, 15.91% effective September 1, 2023, for Rate Phase II, and 3.98% effective September 1, 2024, for Rate Phase III.

B. OUCC's Evidence. Mr. Parks reviewed ECSD's request for authority to issue $7,945,000 in long-term debt through the SRF program to pay-off the outstanding 2020 BAN. He stated the 2020 BAN funded the four Phase II CSO projects required under Petitioner's updated 2011 CSO LTCP. The projects include the pump station upgrades to the 145th Street Stormwater Pump Station, the Alder Street Combined Sewage Pump Station, the Roxana Combined Sewage Pump Station, and the WWTP and CSO Lagoon projects. He noted Petitioner did not place these projects in service until December 16, 2021, and missed its IDEM Agreed Judgment completion deadline by two years.

Mr. Parks described ECSD's wastewater collection and treatment system and the four CSO projects. He stated the cost estimates doubled between 2011 and 2020 and Petitioner's separate financings of the projects, including the $6 million 2014 Bond Anticipation Notes ("2014 BAN"), the $12.94 million 2015 Revenue Bonds, the $8.3 million 2020 BAN, and the $7.945 million 2022 Revenue Bonds Petitioner proposes to issue in September 2022. Mr. Parks testified Petitioner did not discuss the 2015 revenue bonds in its case-in-chief and stated Petitioner's February 2019 Engineer's Estimate of $9,338,878 for the Phase II CSO projects was learned via a data request.

Mr. Parks testified that on July 23, 2020, Petitioner entered into a $12.232 million Guaranteed Energy Savings Performance Contract with Kokosing to build the Phase II CSO projects with some items deleted. He testified Kokosing's contract price was nearly $3 million above the Engineer's Estimate and over twice the 2015 Revenue Bond cost estimate. He stated IDEM inquired in 2019 about the higher costs and the construction delay, but Petitioner did not directly explain or detail the increases. Mr. Parks summarized the escalated costs in Attachment JTP-6. He testified that as of December 31, 2021, Kokosing had two minor punch list items to finish and had billed $8,929,359.52 of its $12,232,000 GMAX contract, resulting in approximately $3.3 million in unspent funds. Mr. Parks testified ratepayers should have the benefit in rates of financing based on the actual project costs, and he recommended Petitioner apply these unspent funds to reduce Petitioner's requested SRF loan from $7,945,000 to $4,645,000.

Mr. Parks was critical of Petitioner providing no direct testimony about the unspent funds. Based on Petitioner's discovery responses, he indicated ECSD plans to pay Kokosing the full $12,232,000 contract amount and is proposing three additional projects be funded with the dollars remaining. Mr. Parks recommended these projects not be considered because they fall outside the IDEM reviewed and approved projects, were not identified or supported in Petitioner's case-in-chief, and were not evaluated in Petitioner's Preliminary Engineering Report that ECSD submitted with its funding request to the Indiana Finance Authority's ("IFA") SRF program. He asserted one of the additional projects, the $658,527 Alder Street pump station wet well cleaning, is not SRF eligible because IFA will not fund operating expenses. Mr. Parks recommended ECSD separately evaluate, prioritize, design, and competitively bid the extra projects now being proposed.

Mr. Parks took issue with Petitioner's claimed $1,012,584 annual savings under the Kokosing Guaranteed Savings Contract to be generated from three categories: 1) capital avoidance savings of $784,667 per year; 2) operational savings of $189,000 per year, and 3) energy savings of $38,917 per year. Mr. Parks testified the Phase II CSO projects will not produce Kokosing's guaranteed $15.19 million of savings over 15 years primarily because the $778,667 of claimed annual capital avoidance savings are not substantiated. He testified Petitioner did not support its claimed capital avoidance savings and did not explain how any capital project components were avoided. Mr. Parks also disagreed that the Phase II CSO projects will generate electrical savings. He testified ECSD's electrical costs will, instead, increase because of higher pump horsepower and from higher pumped flow rates and higher line pressures during peak flows. He stated Petitioner will see higher purchased power costs (usage and demand) at its lift stations and WWTP because ECSD will be capturing and treating combined flows that will no longer be dumped to the river untreated.

OUCC witness Sullivan proposed a 19.19% rate increase over three phases resulting in $1,447,293 of additional revenue. She agreed with avoiding 2020 as a test year. As opposed to the five revenue adjustments Petitioner proposed, Ms. Sullivan proposed one operating revenue adjustment due to ECSD's loss of residential customers during the test year. Ms. Sullivan accepted a proposed expense adjustment to increase utility services, but she did not accept the expense adjustments for employee salaries and wages, employee benefits, sludge removal, and bad debt expense. Additionally, while ECSD included the full Kokosing contract amount in its depreciation and payment in lieu of taxes ("PILT") expense calculations, Ms. Sullivan used $8.932 million.

Shawn Dellinger, who also testified on behalf of the OUCC, agreed with Mr. Riley's use of the 35-basis point addition to the current interest rate of 2%, and he agreed with Mr. Parks that ECSD's debt service should not reflect borrowing $3.3 million in unspent funds under the GMAX agreement and should be based on a total borrowing of $4,645,000. For this reason, Mr. Dellinger testified Petitioner's debt service reserve should be adjusted down. He proposed a true-up process for updating rates after ECSD closes on the SRF loan, as well as some additional reporting requirements regarding the issuance costs. Mr. Dellinger also discussed other issues, including issues with the Cost and Effectiveness Analysis found in the Preliminary Engineering Report that he believed was similar to a lifecycle cost analysis. He emphasized the importance of a robust lifecycle cost analysis to inform decisions.

C. <u>IG's Evidence</u>. Ms. York testified ECSD's Cost-of-Service Study ("COSS") was significantly flawed, and she proposed several adjustments. She testified a larger portion of pump station costs should be allocated on the basis of customer connections, rather than flow, and Ms. York recommended adjusting the classification of these pump station costs to 50% fixed and 50% flow. She also testified the collection system costs should include some allocation of debt service and debt service reserve expenses to reflect how the improvements to the wastewater system are funded.

Ms. York testified the total suspended solids ("TSS") excess strength charge should not be based on the system average costs and volumes, but rather, should reflect the additional cost incurred for specific customers that discharge effluent at TSS levels in excess of the system normal TSS level. She stated this will send an appropriate cost-based price signal to customers with excess strength TSS discharges.

Rather than using ECSD's COSS as adjusted, Ms. York recommended all customer classes receive an equal percent increase in all three phases and that no class receive a rate decrease. She stated the rates at the various tiers should be designed to recover the costs assigned to each tier's usage, plus a share of the costs associated with domestic strength TSS and chemical oxygen demand ("COD").

Mr. Gorman disagreed with some of Mr. Riley's adjustments. Specifically, he disagreed with Mr. Riley's decision to reduce excess strength charges for TSS and COD. Mr. Gorman stated this adjustment is not cost-based and should be rejected. Mr. Gorman testified Mr. Riley's estimated charges reflect the average system cost for COD and TSS, instead of reflecting the limited number of customers that have excess strength COD and TSS discharges. Mr. Gorman stated the charges should be guided by ECSD's cost of treating the excess strength discharges. Thus, he rejected ECSD's adjustment to revenue and stated ECSD's Phase I revenue requirement should be reduced by $810,000.

Mr. Gorman also testified that Petitioner overstated its projected revenue requirement by including vacant employee and new employee hire positions because the vacant employee positions are not expected to be filled until 2022, which is more than 24 months after the test year and, therefore, not then known and measurable and should be removed from the revenue requirement. For the same reason, Mr. Gorman stated the proposed costs of unfilled shared positions should also be removed from ECSD's revenue requirement.

D. <u>Rebuttal and Cross-Answering Testimony</u>. In rebuttal, Mr. Myers opposed Mr. Parks' proposed adjustment to debt service and debt service reserve. He stated ECSD needed the unspent funds from the GMAX contract for additional projects, including replacing the HVAC for the Roxana Lift Station, providing underwater diving services to investigate the Alder Street wet well, repairing the CSO influent intake pipe and the knife valve seals in each of the sand filters, installing new seals on the knife valves, replacing the existing filter media, and installing four flow meters. Mr. Myers advised that ECSD is working with SRF to ensure compliance with SRF requirements for funding any additional projects. With regard to the wet well cleaning, Mr. Myers testified debris in the Alder Street wet well is currently obstructing proper functioning of the new Alder Street pumps and, consequently, needs to be cleaned. He stated the work to clean this wet well goes beyond routine maintenance, with ECSD's maintenance personnel not recalling the wet well at this lift station ever being cleaned over the last 30 years. He testified the planned extensive cleaning is required for sewer rehabilitation, to prevent damaging the newly installed pumps, and to reduce unscheduled maintenance to unclog the pumps. For all of these new projects, Mr. Myers testified he provided information about the additional projects in attachment KLM-8.

Mr. Myers opined that it creates efficiencies to do all the proposed work with the contractor currently engaged, i.e., Kokosing. He stated ECSD likely had funds leftover under the GMAX contract because Kokosing acted conservatively in setting the maximum amount. Per Mr. Myers, there were many unknowns at the beginning of the contract, such as the lead time for materials and variables related to labor and scheduling. Once the work began, however, Kokosing did not encounter the expected difficulties and discovered ways to reduce project costs. Mr. Myers testified that because of that good fortune, ECSD has an opportunity to apply the budgeted funds to other critically needed and related projects.

In response to the testimony from Mr. Parks regarding the increased costs and the timeline for the LTCP projects, Mr. Myers stated he did not testify about these issues in his direct testimony because he did not have direct personal involvement in these matters, and there was no other current ECSD employee who was involved. Mr. Myers noted he did not take his current position until May 2021.

With regard to the timeline, Mr. Myers testified the original LTCP Phase II schedule was delayed because of changes in design engineer and scope of work. Mr. Myers stated that in May 2019, a request for extension of the LTCP schedule related to Phase II was provided to IDEM. This schedule anticipated construction starting in spring 2020 and project completion at the end of 2022. Mr. Myers testified the estimated costs for Phase II went up because of the passage of time and because certain costs were omitted in the first estimate since it was based on a different design. The project encountered a significant re-design when Petitioner changed design engineering firms in 2017. Mr. Myers testified ECSD provided the reasons behind the increased estimates to IDEM, and IDEM ultimately approved the schedule extension knowing the increased price.

Mr. Myers disagreed with Mr. Parks' testimony on capital avoidance savings. Mr. Myers testified Kokosing's calculation of "capital avoidance savings" as defined under Ind. Code § 36-1-12.5 was not the motivating factor for selecting Kokosing. He also testified he had no reason to doubt that Kokosing's calculation of capital avoidance savings followed the statutory framework. Per Mr. Myers, Mr. Parks does not understand that "avoiding costs" is a requirement for these contracts and was not a basis for Kokosing's selection. He testified SRF has not raised concerns with respect to the savings calculation or any other aspect of the Kokosing contract the SRF reviewed.

Mr. Myers also disagreed with Mr. Parks' testimony on energy savings. He testified energy savings are calculated as "the difference between the base, industry standard installation and the project actual installation." Petitioner's Exhibit 1-R, p. 20. In the case of the pump project, he testified the base industry standard installation is constant speed pumps. ECSD invested in energy savings by including variable frequency drives to enable the pumps to run at a lower energy draw at lower flows. He believes the calculations were typical of recognized energy savings calculations.

Mr. Riley opposed Mr. Parks' proposed adjustment to debt service and debt service reserve. After referencing Mr. Myers' testimony about the need for the projects, he stated the PER could be amended for SRF approval of the additional projects, and ECSD is in the process of such an amendment. Mr. Riley testified that in addition to the OUCC's proposed reduction in Petitioner's capital needs, removing several operating revenue and expense adjustments could lead to Petitioner being unable to meet its annual revenue requirement.

Mr. Riley also responded to Ms. Sullivan's testimony regarding expense adjustments. He testified all of the adjustments in Petitioner's original filing are necessary. Mr. Riley testified that contrary to the OUCC's position, pro forma salaries and wages should include bonuses, overtime pay, longevity, and the Board's pay. He agreed, however, to remove what was listed as longevity from the union employees in the original filing to arrive at proposed pro forma salaries and wages. Overall, this resulted in a proposed reduction to Petitioner's adjustments for salaries and wages, FICA, and PERF of $44,238. Mr. Riley also agreed to adjust the pro forma health insurance costs for union employees to reflect the actual 2020 bi-weekly pay for these employees. Overall, this reduced the pro forma health insurance by $15,453. Mr. Riley further accepted the OUCC's adjustments for unemployment compensation and for worker's compensation. He agreed with Ms. Sullivan's removal of the transfer of dormant funds from the revenue requirement offsets. Mr. Riley also addressed several cash operating disbursement adjustments the OUCC removed. He testified the OUCC gave no explanation for removing these adjustments from the cash operating disbursements. Per Mr. Riley, these adjustments are necessary, and he opposed Ms. Sullivan's other changes to the adjustments. With his agreed changes, the rate increase for Phase I was reduced from 14.40% to 14.24%. The Phase II rate increase was reduced from 15.91% to 15.77%, and the Phase III rate increase was reduced from 3.89% to 3.77%.

Mr. Riley testified the IG's proposed TSS cost allocation will, essentially, create a scenario where revenues depend on a surcharge for one customer. Mr. Riley testified the dramatic volatility in TSS loadings from year to year is not a reliable source of revenue. He stated ECSD has to cover its statutorily allowed revenue requirements, and those revenues need to be sustainable and predictable.

The OUCC also filed cross-answering testimony responding to the IG. In his cross-answering testimony, OUCC witness Mierzwa testified the OUCC has no objection to the IG's proposal to achieve an equal percentage increase revenue allocation by increasing all of ECSD's meter charges and volumetric treatment charges by the same percentage.

E. <u>Testimony Supporting Settlement Agreement</u>. The Parties each presented testimony supporting the Settlement Agreement.

In supporting the settlement, Mr. Riley testified the Parties agreed to decrease the net revenue requirement from the amount ECSD requested. He testified that under the Settlement Agreement, Petitioner's overall net revenue requirement is $9,643,000, reflecting adjustments to operating expenses, depreciation expense, and PILT from Petitioner's initial filing. For Phase I, he stated ECSD's rates will increase based on the costs-of-service on average by 10.00%, producing $753,779 in additional annual operating revenue. After that, Mr. Riley stated ECSD's rates will increase 8.00% across-the-board in Phase II and 7.64% in Phase III. Mr. Riley explained the Phase III agreed rate increase percentage changed from 7.59%, as presented at the March 29, 2022, hearing to 7.64% because of a rounding correction. He testified ECSD's residential rates agreed upon under the Settlement Agreement are competitive compared to utilities throughout Indiana.

Mr. Riley testified the settlement revenues are allocated to different classes based on agreed adjustments to meter charges, volumetric charges, and extra-strength charges. With respect to rate design, he stated the Parties agreed to use the following billing determinants: the Tier I (first 100,000 gallons) billing determinants are based on the test-year billing determinants of 537,290 gallons,[3] and Tier II (over 100,000 gallons) billing determinants are 968,276 gallons. TSS excess strength billing determinants are adjusted to 697,525 pounds, adjusted for W.R. Grace, and chemical oxygen demand excess strength billing determinants are 388,725 pounds. He stated these rates and charges are reflected on the schedule attached to his settlement testimony as page 6 of Attachment AJR S1-2.

Mr. Riley also explained the Parties agreed to the IG's request that the rates for excess strength TSS and COD reflect additional costs for customers that discharge effluent at TSS levels in excess of the system's normal TSS and COD level originally proposed by Petitioner. He testified the Parties also agreed debt service and debt service reserve used in this ratemaking should include ECSD's full requested borrowing amount of $7.945 million. Mr. Riley testified the Parties also agreed to certain reporting on new long-term debt, including a true-up process the Commission may direct.

OUCC witness Bell testified the Commission should view the settlement as balanced and in the public interest. Mr. Bell stated the agreed revenue requirement increase in the Settlement Agreement represents 75% of ECSD's requested increase. He testified that within the revenue requirement, the overall debt service requirement is maintained at the amount Petitioner proposed. He also testified that in making the revenue requirement changes, the Parties agreed to changes to the billing charge, the base rates based on meter size, the treatment and pretreatment rates, and the extra strength charges to achieve the required revenue. Mr. Bell stated the Settlement Agreement is in the public interest because the "rates and charges resulting from the Settlement, along with the phased in approach to implementing the rates, lessens the impact of East Chicago's rate request while also allowing East Chicago to construct much-needed improvements and the opportunity to earn the revenues it needs to continue to provide safe and reliable service." Public's Exhibit 5, p. 3. Additionally, he stated the settlement is consistent with the General Assembly's affordability policy found in Ind. Code § 8-1-2-.05. Mr. Bell recommended the Settlement Agreement be approved.

Ms. York, testifying on behalf of the IG, also recommended the Settlement Agreement be approved. She stated the Settlement Agreement is a comprehensive agreement that resolves ECSD's revenue requirements and the allocation and rate design issues raised in this case. She explained that while the Parties did not agree to a particular cost of service approach, the Parties agreed to a modified revenue allocation to adjust rates and charges. She testified the Settlement Agreement is the result of extensive arms-length negotiations and within the range of outcomes if the case had been litigated. Per Ms. York, the Settlement Agreement should be approved because: (1) the agreed revenue allocation reflects a compromise resolving the contested issues in this case and reduces rate case expenses while being within the range of the Parties' litigated positions; (2) the agreed revenue allocation is fair, reasonable, and in the public interest; and (3) the wastewater rate adjustments contained in the Settlement Agreement represent a compromise on the contested

[3] As part of the Settlement Agreement, the Tier I billing determinants were not adjusted for rate fatigue as Petitioner initially proposed.

issues. She stated the settlement wastewater rates are just and reasonable.

6. **<u>Commission Discussion and Findings</u>.**

A. **<u>Settlement Standard</u>.** As the Commission has discussed many times, settlements presented to the Commission are not ordinary contracts between private parties. *U.S. Gypsum, Inc. v. Ind. 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 Coal. 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 Coal.*, 664 N.E.2d at 406.

Further, any Commission decision, ruling, or order, including the approval of a settlement, must be supported by specific findings of fact and sufficient evidence. *U.S. Gypsum*, 735 N.E.2d at 795 (citing *Citizens Action Coal. v. Pub. Serv. Co.*, 582 N.E.2d 330, 331 (Ind. 1991)). The Commission's procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Before the Commission can approve the Settlement Agreement, the Commission must determine whether the evidence in this Cause sufficiently supports the agreed relief and the conclusion that the Settlement Agreement is reasonable, just, and consistent with the purpose of Ind. Code ch. 8-1-2 and that such agreement serves the public interest. It is imperative the Commission be provided with substantive evidentiary support for settlements.

B. **<u>Settlement Provisions</u>.** The Settlement Agreement resolves all the issues presented in this proceeding and contains the agreed terms and conditions of the settlement among the Parties. Under the Settlement Agreement, the Parties agree ECSD should be authorized to increase Petitioner's rates by 27.87% over three phases. Specific terms of the Settlement Agreement are addressed below.

(i) <u>Revenue Requirement</u>. The Parties agreed ECSD's test year operating revenue at present rates shall be $7,541,099 and the overall agreed net revenue requirement is $9,643,000, as shown below:

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

OVERALL REVENUE REQUIREMENT COMPARISON

	Settlement - Phases			
	Phase I	Phase II	Phse III	Overall
Operating Expenses	$5,760,101	$5,760,101	$5,760,101	$5,760,101
Depreciation Expense	560,500	1,018,000	1,543,469	1,543,469
Payment in Lieu of Taxes	855,455	855,455	855,455	855,455
Debt Service	1,092,817	1,299,220	1,457,970	1,457,970
Debt Service Reserve	96,156	96,156	96,156	96,156
Total Revenue Requirements	8,365,029	9,028,932	9,713,151	9,713,151
Less: Revenue Requirement Offsets				
Rents from Wastewater Property	(26,750)	(26,750)	(26,750)	(26,750)
Other Wastewater Revenue	(31,871)	(31,871)	(31,871)	(31,871)
Transfer from Dormant Fund	-	-	-	-
Reimbursement for General Expenses	(11,530)	(11,530)	(11,530)	(11,530)
Net Revenue Requirements	8,294,878	8,958,781	9,643,000	9,643,000
Less: Revenue at current rates subject to increase	(7,541,099)	(8,294,878)	(8,958,781)	(7,541,099)
Recommended Increase	$753,779	$663,903	$684,219	$2,101,901
Recommended Percentage Increase	10.00%	8.00%	7.64%	27.87%

The Parties agree ECSD's operating revenue at present rates is inadequate. To accomplish the overall agreed revenue requirement, the Parties negotiated and stipulated to certain adjustments related to salaries and wages, employee benefits, sludge removal, utility services, shared services, contractual services, bad debt expense, depreciation expense, PILT, debt service, debt service reserve, and other revenue requirement items. As testified to by the Parties' witnesses, the agreed amount is the product of arm's-length compromise and within what the evidence supports. Given the Parties' settlement testimony, the Commission finds the revenue requirement the Parties agreed upon is supported by substantial evidence.

(ii) **<u>Long-Term Debt</u>.** ECSD entered into a GMAX contract with Kokosing in July 2020 to complete certain projects related to Phase II of the LTCP. As of December 31, 2021, Kokosing had billed $8,929,359.52 of the $12,232,000 guaranteed maximum price. Thus, the unused funds then totaled approximately $3.3 million. The OUCC originally proposed that ECSD lower its borrowing request from the SRF loan program by that amount and, therefore, lower its debt service and debt service reserve revenue requirements. In rebuttal, ECSD objected to this adjustment because Petitioner has capital project needs that ECSD intends to fund with any remaining funds available under the Kokosing contract. Additionally, ECSD advised it is working with SRF to ensure compliance with SRF requirements for funding its projects. In the Settlement Agreement, the Parties agree the debt service and debt service reserve revenue requirements will include the full intended borrowing amount of $7,945,000 from the SRF. The

Commission finds there is sufficient evidence to support accounting for SRF debt in the amount of $7,945,000. Petitioner's witness Myers testified regarding ECSD's need for capital projects to be funded from the remaining Kokosing contract funds, and Petitioner's accounting expert, Mr. Riley, testified the proposed SRF loan is a reasonable method to finance Petitioner's additional needed improvements. The Commission finds the Parties' agreement upon the amount of long-term debt accounted for in the debt service and debt service reserve for purposes of generating Petitioner's revenue requirement is reasonable and in the public interest.[4]

(iii) **Rate Design.** During the settlement process, the Parties negotiated an overall rate increase and certain revised inputs to the original cost-of-service methodology to achieve the agreed revenue allocation through an agreed rate design. While the agreed rate design utilizes ECSD's COSS for some of the charges such as billing and pretreatment, the meter, volumetric, and extra-strength charges are not based on a particular cost-of-service but were separately negotiated to achieve a result that is acceptable to the Parties and within the range of the Parties' non-settlement positions. The Parties agreed and stipulated to the following billing determinants: Tier 1 billing determinants of 537,290 per 1,000 gallons and TSS extra strength billing determinants of 697,525 pounds. The Commission finds the Parties' agreement as to rate design was shown to be reasonable, within the evidence, and in the public interest. It is noted the Commission is not approving a specific COSS under this Order.

(iv) **Phased-in Rates.** The Parties negotiated an overall rate increase and certain average increases for Phases I through III. More specifically, the Parties agreed to the following phased-in rate increases: Phase I—Upon issuance of the Commission's Order in this Cause, ECSD's rates will increase by 10.00% to produce $753,779 in additional annual operating revenue; Phase II—Effective as of September 1, 2023, ECSD's rates will increase by 8.00% to produce $663,903 in additional annual operating revenue; and Phase III—Effective as of September 1, 2024, ECSD's rates will increase by 7.64% to produce $684,219 in additional annual operating revenue. The overall agreed increased revenue amount is $2,101,901, a 27.87% increase over current revenues. OUCC witness Bell provided testimony supportive of these increases. Based on the Parties' settlement testimony, the Commission finds the agreed phased-in increases will mitigate rate impact, are supported by the settlement testimony, and were shown to be reasonable and in the public interest; provided, the Commission finds no increase shall be implemented until a revised tariff with new schedules of rates and charges has been filed for review by the Commission's Water/Wastewater Division for review, and the Division agrees with such revised tariff.

(v) **Reporting.** Within 30 days of closing on the long-term debt issuance, ECSD agreed to file a report explaining the terms of the new loan, the balance actually borrowed, the amount of debt service reserve, and an itemized account of all issuance costs, including issuance costs actually incurred to that date. In addition, the report is to include a revised tariff, if necessary, amortization schedule, and a calculation of the rate impact presented in a manner similar to what ECSD included in Petitioner's schedules. The Parties further agreed that with respect to the true-up, Petitioner's rates will not need be revised if all the Parties agree in a

[4] The Commission notes the statute under which ECSD seeks the Commission's approval of rates does not require the Commission to approve Petitioner's long-term financing, but the amount of that long-term financing affects the calculation of revenue requirements the Commission is approving.

writing filed with the Commission in this Cause that the change in rates indicated by the true-up report need not be implemented for lack of materiality; provided, the Commission reserves jurisdiction to order a revised tariff to be filed, notwithstanding any agreement of the Parties, if the Commission finds the revisions material.

(vi) **Conclusion.** The Commission has before it substantial evidence from which to determine the reasonableness of the terms of the Settlement Agreement. Our review of the reasonableness of the Settlement Agreement is aided by the Parties' supporting settlement testimony. Based on that testimony, the Commission finds the Settlement Agreement is the product of arm's-length negotiations among the Parties, and its terms are supported by the evidence and represent a reasonable resolution of the issues presented. We find the Parties' testimony supports and explains the components underlying the increase in ECSD's base rates and charges provided in the Settlement Agreement. Further, the settlement testimony demonstrates the Settlement Agreement is in the public interest in that it maintains ECSD's ability to comply with Petitioner's environmental commitments while mitigating the rate increase impact over three phases. The Commission, therefore, finds the Settlement Agreement is reasonable and its approval is in the public interest.

C. **Effect of Settlement Agreement.** Consistent with the Settlement Agreement's terms, the Settlement Agreement is not to be used as precedent in any other proceeding or for any other purpose, except to the extent provided therein or to the extent necessary to implement or enforce its terms; consequently, with regard to future citation of the Settlement Agreement, the Commission finds our approval should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, 1997 WL 34880849 at 7-8 (IURC March 19, 1997).

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

1. The Settlement Agreement, a copy of which is attached to this Order, is approved consistent with Finding No. 6 above.

2. ECSD is authorized to increase its wastewater rates and charges over three phases to reflect annual revenues of $9,643,000, representing a cumulative 27.87% increase, consistent with the terms of the Settlement Agreement.

3. Prior to implementing each Phase of the approved rate increase, ECSD shall file a revised tariff with new schedules of rates and charges for review and approval by the Commission's Water/Wastewater Division. Such increases may be implemented upon Division review and agreement with each revised tariff.

4. Within 30 days of closing on the long-term debt issuance, ECSD shall file a report under this Cause providing the terms of its new loan, the balance actually borrowed, the amount of debt service reserve, and an itemization of all issuance costs, including actual issuance costs incurred to that date, with the report to also include a revised tariff, if necessary, amortization schedule, and a calculation of the rate impact. With respect to the potential true-up, Petitioner's rates will not need to be revised if the Parties all agree in a writing filed with the Commission in

this Cause that the change in rates indicated by the true-up report need not be implemented for lack of materiality unless the Commission finds otherwise, consistent with Finding No. 6(v) above.

5. In accordance with Ind. Code § 8-1-2-70, within 20 days from the date of this Order, ECSD shall pay to the Secretary of the Commission the following itemized charges, as well as any additional costs that were incurred in connection with this Cause:

Commission Charges:	$ 8,926.86
OUCC Charges:	$14,752.54
Legal Advertising Charges:	$ 137.11
Total	$23,816.51

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.

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

HUSTON, FREEMAN, KREVDA, AND ZIEGNER CONCUR:

APPROVED: JUN 28 2022

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

Dana Kosco

Digitally signed by Dana Kosco
Date: 2022.06.28 14:14:55 -04'00'

Dana Kosco
Secretary of the Commission

STATE OF INDIANA
INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE BOARD OF SANITARY COMMISSIONERS OF THE SANITARY DISTRICT OF THE CITY OF EAST CHICAGO, INDIANA, FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WASTEWATER SERVICE, AND FOR APPROVAL OF NEW SCHEDULES OF WASTEWATER RATES AND CHARGES	)	**Cause No. 45632**

JOINT STIPULATION AND SETTLEMENT AGREEMENT

On October 22, 2021, the Board of Sanitary Commissioners of the Sanitary District of the City of East Chicago, Indiana, ("Petitioner" or "ECSD") filed with the Commission its Petition initiating this Cause and its case-in-chief. The Indiana Office ofthe Utility Consumer Counselor (the "OUCC"), the Intervenor Industrial Group ("Intervenors"), and Petitioner, being all of the parties to this cause (ECSD, Intervenors, and the OUCC, collectively, the "Parties," and individually, a "Party"), have, after arms-length settlement negotiations, reached an agreement with respect to all of the issues before the Indiana Utility Regulatory Commission (the "Commission") in this Cause. The Partiestherefore stipulate and agree for purposes of resolving all the issues in this Cause to the terms and conditions set forth in this Joint Stipulation and Settlement Agreement (this "Settlement").

1. Borrowing

A. Long-Term Debt. The Parties stipulate and agree that the debt service and the debt service reserve reflected in this ratemaking will include the full intended borrowing amount of $7,945,000.

B. Reporting. Within thirty (30) days of closing on long-term debt issuance, ECSD will file a report explaining the terms of the new loan, the balance actually borrowed, the amount of debt service reserve and an itemized account of all issuance costs, including issuance costs actually incurred to that date. The report should include a revised tariff (if necessary, as discussed below), amortization schedule and a calculation of the rate impact presented in a manner similar to that included in Petitioner's schedules.

i. Subject to paragraph B.(ii) below, Parties have agreed that with respect to the true-up, rates need not be revised if all settling parties agree in a writing filed with the Commission in this Cause that the change in rates indicated by the true-up report need not be implemented for lack of materiality.

ii. Parties acknowledge the Commission may override such a decision made pursuant to paragraph B.(i) above, and thus could order East Chicago to file revised rates based on the true-up.

iii. Any objection to Petitioner's true-up filing shall be submitted to the Commission within twenty-one (21) days of said filing.

iv. Petitioner shall respond to any objection to the true-up filing within twenty-one (21) days of said filing.

2. Stipulated Rates and Revenues

A. Test Year Operating Revenues. The Parties stipulate and agree that ECSD's test year operating revenue at present rates shall be $7,541,099, as depicted on page 1 in ECSD's Attachment AJR S1-2.

B. Revenue Requirement. The Parties stipulate and agree that ECSD's current rates andcharges are inadequate and that ECSD's rates and charges should be increased as follows:

i. Phase I: Immediately upon the issuance of the Commission Order, ECSD's rates should be increased by 10.00% so as to produce $753,779 in additional annual operating revenue.

ii. Phase II: Effective as of September 1, 2023, ECSD's rates should be increased by 8.00% so as to produce $663,903 in additional annual operating revenue.

iii. Phase III: Effective as of September 1, 2024, ECSD's rates should be increased by 7.64% so as to produce $684,219 in additional annual operating revenue.

The overall increased revenue amount is $2,101,901, a 27.87% increase over current revenues. The overall agreed net revenue requirement is $9,643,000.

C. Pro Forma Authorized Rates. After adjustments, the Parties stipulate and agree that ECSD's pro forma test year operating revenues will be $8,294,878 in Phase I, $8,958,781 in Phase II, and $9,643,000 in Phase III, as reflected in Schedule 4 to ECSD's Attachment AJR S1-2. The Parties further stipulate and agree that ECSD's revenue requirements for the rate increase is depicted on page 1 in ECSD's Attachment AJR S1-2. The Parties stipulate and agree that the rate increases provided herein and the rates set forth in ECSD Attachment AJR S1-2 are just and reasonable and should be approved.

D. Adjustments. The parties agree and stipulate to the following adjustments reflected in the attached schedules:

i. Salaries and wages
ii. Employee benefits
iii. Sludge removal
iv. Utility services
v. Shared services
vi. Contractual services
vii. Bad debt expense
viii. Depreciation expense
ix. Payment in lieu of taxes (PILT)
x. Debt service
xi. Debt service reserve
xii. Other revenue requirement items

E. Billing Determinants. The parties agree and stipulate to the following billing determinants reflected in the schedules:

i. TSS. The TSS extra strength billing determinants will be 697,525.
ii. Tier 1. The Tier 1 billing determinants will be 537,290.

These determinants are set forth on pages 7-9 in ECSD's Attachment AJR S1-2.

F. Financial Schedules. The Parties stipulate for settlement purposes to the financial schedules included with ECSD's Attachment AJR S1-2.

3. **Submission of Evidence.** The Parties stipulate to the admission into evidence in this Cause of the testimony previously filed (ECSD's Case-in-Chief, the OUCC's Case-in-Chief, the Intervenors' Case-in-Chief, ECSD's Rebuttal, and the OUCC's Cross-Answering Testimony), and any testimony in support of this Settlement on behalf of the OUCC, on behalf of ECSD, and on behalf of the Intervenors. Further, each Party waives cross-examination of the other's witnesses with respect to such testimony. The Parties shall not offer any further testimony or evidence in this proceeding, other than this Settlement and the above-identified testimony and exhibits. If the Commission should request additional evidence to support the Settlement, the Parties shall cooperate to provide such requested additional evidence.

4. **Proposed Final Order.** The Parties agree to cooperate on the preparation and submission to the Commission of a proposed order that reflects the terms of this Settlement and the settlement testimony submitted pursuant to Section 3 hereof.

5. **Sufficiency of Evidence.** The Parties stipulate and agree that the evidentiary material identified immediately above constitutes a sufficient evidentiary basis for the issuance of a final order by the Commission adopting the terms of this Settlement, and granting the relief requested.

6. **Commission Alteration of Agreement.** The concurrence of the Parties with the terms of thisSettlement is expressly predicated upon the Commission's approval of this Settlement. If the Commission alters this Settlement in any material way, unless that alteration is unanimously and explicitly consented to by the Parties, this Settlement shall be deemed withdrawn.

7. **Authorization.** The undersigned represent that they are fully authorized to execute this Settlement on behalf of their respective clients or parties, who will be bound thereby.

8. **<u>Non-Precedential Nature of Settlement</u>.** The Parties stipulate and agree that this Settlement shall not be cited as precedent against any Party in any subsequent proceeding or deemed an admission by any party in any other proceeding, except as necessary to enforce the terms of this Settlement or the final order to be issued in this Cause before the Commission or any court of competent jurisdiction on these particular issues and in this particular matter. This Settlement is solely the result of compromise in the settlement process and, as provided herein, is without prejudice to and shall not constitute a waiver of any position that any of the Parties may take with respect to any or all of the items resolved herein in any future regulatory or other proceeding, and, failing approval by the Commission, shall not be admissible in any subsequent proceeding.

9. **<u>Counterparts</u>.** This Settlement may be executed in one or more counterparts (or upon separate signature pages bound together into one or more counterparts), all of which taken together shall constitute one agreement.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this Settlement on the dates set forthbelow.

BOARD OF SANITARY COMMISSIONS
OF THE SANITARY DISTRICT OF THE
CITY OF EAST CHICAGO, INDIANA

By: Jane Dall Wilson
Counsel

Dated: 4/21/22

OFFICE OF UTILITY CONSUMER COUNSEL

By: Daniel M. Le Vay
Deputy Consumer Counselor OUCC
Daniel M. Le Vay

Dated: 4/21/2022

EAST CHICAGO SANITARY DISTRICT
INDUSTRIAL GROUP

By: Aaron Schmoll
Counsel
AARON SCHMOLL

Dated: 4/21/22

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

OVERALL REVENUE REQUIREMENT COMPARISON

	Settlement - Phases			
	Phase I	Phase II	Phse III	Overall
Operating Expenses	$5,760,101	$5,760,101	$5,760,101	$5,760,101
Depreciation Expense	560,500	1,018,000	1,543,469	1,543,469
Payment in Lieu of Taxes	855,455	855,455	855,455	855,455
Debt Service	1,092,817	1,299,220	1,457,970	1,457,970
Debt Service Reserve	96,156	96,156	96,156	96,156
Total Revenue Requirements	8,365,029	9,028,932	9,713,151	9,713,151
Less: Revenue Requirement Offsets				
Rents from Wastewater Property	(26,750)	(26,750)	(26,750)	(26,750)
Other Wastewater Revenue	(31,871)	(31,871)	(31,871)	(31,871)
Transfer from Dormant Fund	-	-	-	-
Reimbursement for General Expenses	(11,530)	(11,530)	(11,530)	(11,530)
Net Revenue Requirements	8,294,878	8,958,781	9,643,000	9,643,000
Less: Revenue at current rates subject to increase	(7,541,099)	(8,294,878)	(8,958,781)	(7,541,099)
Recommended Increase	$753,779	$663,903	$684,219	$2,101,901
Recommended Percentage Increase	10.00%	8.00%	7.64%	27.87%

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

Schedule 4
Page 1 of 3

CAUSE NUMBER 45632

***Pro-forma* Net Operating Income Statement**

	Year Ended Dec. 31, 2019	Adjustments	*Pro-forma* Present Rates	Phase I Adjustments	*Pro-Forma* Phase I Proposed Rates
Operating Revenue					
Residential	$ 1,245,176	$ (14,122)	$ 1,231,054	$ 292,014	$ 1,523,068
Commercial	930,036	-	930,036	262,807	1,192,843
Industrial	4,597,173	-	4,597,173	190,768	4,787,941
Public authority	361,418	-	361,418	83,340	444,758
Pretreatment monitoring	207,694	-	207,694	(105,651)	102,043
Pretreatment base	156,325	-	156,325	30,501	186,826
Penalties	57,399	-	57,399	-	57,399
Total Operating Revenue	7,555,221	(14,122)	7,541,099	753,779	8,294,878
O&M Expenses					
Salaries and Wages - Employee	1,226,957	247,956	1,474,913		1,474,913
Overtime	178,036	-	178,036		178,036
Reimbursements - Shared Services	529,568	149,364	678,932		678,932
Salaries and Wages - Directors	24,753	-	24,753		24,753
Employee Benefits	651,614	198,673	850,287		850,287
Sludge Removal Expense	170,913	70,754	241,667		241,667
Utility Services	849,976	71,636	921,612		921,612
Chemicals	47,825	-	47,825		47,825
Materials and Supplies	131,754	-	131,754		131,754
Contractual services - Engineering	31,566	-	31,566		31,566
Contractual services - Accounting	42,524	-	42,524		42,524
Contractual services - Legal	36,054	-	36,054		36,054
Contractual services - Other/Testing	759,325	157,528	916,853		916,853
Rental of Building/Real Property	11,854	-	11,854		11,854
Rental of Equipment	1,252	-	1,252		1,252
Transportation Expense	72,251	-	72,251		72,251
Insurance - General Liability	9,085	-	9,085		9,085
Insurance - Workman's Compensation	24,067	-	24,067		24,067
Bad Debt Expense	184,005	(179,177)	4,828		4,828
Miscellaneous Expense	58,488	-	58,488		58,488
Flood Protection Plan	1,500	-	1,500		1,500
Total Operating Expenses	5,043,367	716,734	5,760,101	-	5,760,101
Net Operating Income	$ 2,511,854	$ (730,856)	$ 1,780,998	$ 753,779	$ 2,534,777

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

Schedule 4
Page 2 of 3

CAUSE NUMBER 45632

***Pro-forma* Net Operating Income Statement**

	Pro Forma Phase I	Adjustments	*Pro-forma* Present Rates	Adjustments	*Pro-Forma* Phase II Proposed Rates
Operating Revenue					
Residential	$ 1,523,068	$ -	$ 1,523,068	$ 121,845	$ 1,644,913
Commercial	1,192,843	-	1,192,843	95,427	1,288,270
Industrial	4,787,941	-	4,787,941	387,941	5,175,882
Public authority	444,758	-	444,758	35,581	480,339
Pretreatment monitoring	102,043	-	102,043	8,163	110,206
Pretreatment base	186,826	-	186,826	14,946	201,772
Penalties	57,399	-	57,399	-	57,399
Total Operating Receipts	8,294,878	-	8,294,878	663,903	8,958,781
O&M Expenses					
Salaries and Wages - Employee	1,474,913	-	1,474,913		1,474,913
Overtime	178,036	-	178,036		178,036
Reimbursements - Shared Services	678,932	-	678,932		678,932
Employee Benefits	850,287	-	850,287		850,287
Sludge Removal Expense	241,667	-	241,667		241,667
Utility Services	921,612	-	921,612		921,612
Chemicals	47,825	-	47,825		47,825
Materials and Supplies	131,754	-	131,754		131,754
Contractual services - Engineering	31,566	-	31,566		31,566
Contractual services - Accounting	42,524	-	42,524		42,524
Contractual services - Legal	36,054	-	36,054		36,054
Contractual services - Other/Testing	916,853	-	916,853		916,853
Rental of Building/Real Property	11,854	-	11,854		11,854
Rental of Equipment	1,252	-	1,252		1,252
Transportation Expense	72,251	-	72,251		72,251
Insurance - General Liability	9,085	-	9,085		9,085
Insurance - Workman's Compensation	24,067	-	24,067		24,067
Salaries and Wages - Directors	24,753	-	24,753		24,753
Bad Debt Expense	4,828	-	4,828		4,828
Miscellaneous Expense	58,488	-	58,488		58,488
Flood Protection Plan	1,500	-	1,500		1,500
Total Operating Expenses	5,760,101	-	5,760,101	-	5,760,101
Net Operating Income	$ 2,534,777	$ -	$ 2,534,777	$ 663,903	$ 3,198,680

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

Schedule 4
Page 3 of 3

CAUSE NUMBER 45632

Pro-forma Net Operating Income Statement

	Pro Porma Phase II	Adjustments	*Pro-forma* Present Rates	Adjustments	*Pro-Forma* Phase III Proposed Rates
Operating Revenue					
Residential	$ 1,644,913	$ -	$ 1,644,913	$ 126,439	$ 1,771,352
Commercial	1,288,270	-	1,288,270	99,025	1,387,295
Industrial	5,175,882	-	5,175,882	397,852	5,573,734
Public authority	480,339	-	480,339	36,922	517,261
Pretreatment monitoring	110,206	-	110,206	8,471	118,677
Pretreatment base	201,772	-	201,772	15,510	217,282
Penalties	57,399	-	57,399	-	57,399
Total Operating Receipts	8,958,781	-	8,958,781	684,219	9,643,000
O&M Expenses					
Salaries and Wages - Employee	1,474,913	-	1,474,913		1,474,913
Overtime	178,036	-	178,036		178,036
Employee Benefits	678,932	-	678,932		678,932
Sludge Removal Expense	850,287	-	850,287		850,287
Utility Services	241,667	-	241,667		241,667
Chemicals	921,612	-	921,612		921,612
Materials and Supplies	47,825	-	47,825		47,825
Contractual services - Engineering	131,754	-	131,754		131,754
Contractual services - Accounting	31,566	-	31,566		31,566
Contractual services - Legal	42,524	-	42,524		42,524
Contractual services - Other/Testing	36,054	-	36,054		36,054
Rental of Building/Real Property	916,853	-	916,853		916,853
Rental of Equipment	11,854	-	11,854		11,854
Transportation Expense	1,252	-	1,252		1,252
Insurance - General Liability	72,251	-	72,251		72,251
Insurance - Workman's Compensation	9,085	-	9,085		9,085
Reimbursements - Shared Services	24,067	-	24,067		24,067
Salaries and Wages - Directors	24,753	-	24,753		24,753
Bad Debt Expense	4,828	-	4,828		4,828
Miscellaneous Expense	58,488	-	58,488		58,488
Flood Protection Plan	1,500	-	1,500		1,500
Total Operating Expenses	5,760,101	-	5,760,101	-	5,760,101
Net Operating Income	$ 3,198,680	$ -	$ 3,198,680	$ 684,219	$ 3,882,899

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

SCHEDULE OF AMORTIZATION OF $7,945,000 PRINCIPAL AMOUNT
OF PROPOSED SANITARY DISTRICT REVENUE BONDS, SERIES 2022
Principal payable semiannually, January 15th and July 15th, beginning January 15, 2024.
Interest payable semiannually, January 15th and July 15th, beginning January 15, 2023.
Assumed interest rate as shown.
Assumes bonds dated September 29, 2022.

Payment Date	Principal Balance	Principal	Assumed Interest Rate*	Interest	Total	Bond Year Total
	(-------In $1,000's-------)		(%)	(------------------------In Dollars------------------------)		
1/15/2023	$7,945			$54,974.99	$54,974.99	
7/15/2023	7,945			93,353.75	93,353.75	$148,328.74
1/15/2024	7,945	$83	2.35	93,353.75	176,353.75	
7/15/2024	7,862	84	2.35	92,378.50	176,378.50	352,732.25
1/15/2025	7,778	164	2.35	91,391.50	255,391.50	
7/15/2025	7,614	165	2.35	89,464.50	254,464.50	509,856.00
1/15/2026	7,449	167	2.35	87,525.75	254,525.75	
7/15/2026	7,282	169	2.35	85,563.50	254,563.50	509,089.25
1/15/2027	7,113	171	2.35	83,577.75	254,577.75	
7/15/2027	6,942	173	2.35	81,568.50	254,568.50	509,146.25
1/15/2028	6,769	175	2.35	79,535.75	254,535.75	
7/15/2028	6,594	178	2.35	77,479.50	255,479.50	510,015.25
1/15/2029	6,416	180	2.35	75,388.00	255,388.00	
7/15/2029	6,236	182	2.35	73,273.00	255,273.00	510,661.00
1/15/2030	6,054	184	2.35	71,134.50	255,134.50	
7/15/2030	5,870	186	2.35	68,972.50	254,972.50	510,107.00
1/15/2031	5,684	188	2.35	66,787.00	254,787.00	
7/15/2031	5,496	190	2.35	64,578.00	254,578.00	509,365.00
1/15/2032	5,306	193	2.35	62,345.50	255,345.50	
7/15/2032	5,113	195	2.35	60,077.75	255,077.75	510,423.25
1/15/2033	4,918	197	2.35	57,786.50	254,786.50	
7/15/2033	4,721	200	2.35	55,471.75	255,471.75	510,258.25
1/15/2034	4,521	202	2.35	53,121.75	255,121.75	
7/15/2034	4,319	204	2.35	50,748.25	254,748.25	509,870.00
1/15/2035	4,115	207	2.35	48,351.25	255,351.25	
7/15/2035	3,908	209	2.35	45,919.00	254,919.00	510,270.25
1/15/2036	3,699	212	2.35	43,463.25	255,463.25	
7/15/2036	3,487	214	2.35	40,972.25	254,972.25	510,435.50
1/15/2037	3,273	216	2.35	38,457.75	254,457.75	
7/15/2037	3,057	219	2.35	35,919.75	254,919.75	509,377.50
1/15/2038	2,838	222	2.35	33,346.50	255,346.50	
7/15/2038	2,616	224	2.35	30,738.00	254,738.00	510,084.50
1/15/2039	2,392	227	2.35	28,106.00	255,106.00	
7/15/2039	2,165	230	2.35	25,438.75	255,438.75	510,544.75
1/15/2040	1,935	232	2.35	22,736.25	254,736.25	
7/15/2040	1,703	235	2.35	20,010.25	255,010.25	509,746.50
1/15/2041	1,468	238	2.35	17,249.00	255,249.00	
7/15/2041	1,230	240	2.35	14,452.50	254,452.50	509,701.50
1/15/2042	990	243	2.35	11,632.50	254,632.50	
7/15/2042	747	246	2.35	8,777.25	254,777.25	509,409.75
1/15/2043	501	249	2.35	5,886.75	254,886.75	
7/15/2043	252	252	2.35	2,961.00	254,961.00	509,847.75
Totals		$7,945		$2,244,270.24	$10,189,270.24	$10,189,270.24

*Assumes current subsidized SRF interest rates plus 35 bps to account for potential interest rate changes in the next year.

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

SCHEDULE OF PRESENT AND PROPOSED SEWER RATES AND CHARGES

	Present (1)	Phase I 9/1/2022	Phase II 9/1/2023	Phase III 9/1/2024
Billing Charge (per bill)	$3.69	$2.25	$2.43	$2.62
Base Rates (per month):				
Meter Size				
5/8"	$5.21	$10.00	$10.80	$11.63
3/4"	7.82	15.00	16.20	17.44
1"	13.02	25.00	27.00	29.06
1-1/2"	30.20	58.00	62.64	67.43
2"	52.07	100.00	108.00	116.25
3"	119.76	230.00	248.40	267.38
4"	208.29	400.00	432.00	465.00
6"	473.85	910.00	982.80	1,057.89
8"	843.56	1,620.00	1,749.60	1,883.27
10"	1,317.40	2,530.00	2,732.40	2,941.16
12"	-	3,646.00	3,937.68	4,238.52
Treatment Rate (per 1,000 Gallons per month)				
First 100,000 gallons	$2.34	$2.55	$2.75	$2.96
Over 100,000 gallons	3.88	4.54	4.90	5.27
Pretreatment:				
Base charge per month	$701.67	$598.80	$646.70	$696.11
Monitoring event charge (per event)	627.81	416.50	449.82	484.19
Excess Strength Charges:				
Chemical Oxygen Demand (COD) - per lb. in excess of 250 mg/l	$0.28	$0.20	$0.22	$0.24
Total Suspended Solids (TSS) - per lb. in excess of 100 mg/l	0.92	0.61	0.66	0.71

(1) Per Rate Ordinance No. 15-0023, adopted November 23, 2015.

* The treatment rate above is shown per 1,000 gallons. To convert this to a charge per 100 cu. Ft. the conversion factor is 100 cu. ft. = 748 gallons. The rates above per 100 cu. Ft. are as follows:

First 13,368 cu. ft.	$1.75	$1.91	$2.06	$2.22
Over 13,368 cu. ft.	2.90	3.40	3.67	3.95

Note: The District does not have separate rates by class. The attached billing, meter and flow charges are consistent for each class of customers.

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

Phase I

CALCULATION OF PRO FORMA REVENUES AT PROPOSED RATES AND CHARGES

	Pro Forma Rate	Billing Determinates		Pro Forma Revenues
Pro Forma Annual Revenues:				
Billing Charge	$2.25	81,973	Annual bills	$184,439
Base Charge:				
Meter Size				
5/8"	$10.00	72,788	Annual connections	727,880
3/4"	15.00	4,653	Annual connections	69,795
1"	25.00	1,625	Annual connections	40,625
1-1/2"	58.00	976	Annual connections	56,608
2"	100.00	1,173	Annual connections	117,300
3"	230.00	225	Annual connections	51,750
4"	400.00	310	Annual connections	124,000
6"	910.00	124	Annual connections	112,840
8"	1,620.00	76	Annual connections	123,120
10"	2,530.00	11	Annual connections	27,830
12"	3,646.00	12	Annual connections	43,752
Treatment Rate:				
First 100,000 gallons	$2.55	537,290	1,000's of gallons	1,370,090
Over 100,000 gallons	4.54	968,276	1,000's of gallons	4,395,973
Pretreatment Program:				
Base charge	$598.80	26	Pretreatment customers	186,826
Monitoring event charge	416.50	245	Annual monitoring events	102,043
Excess Strength (Metered Sewer):				
COD	$0.20	388,725	Pounds	77,745
TSS	0.61	697,525	Pounds (1)	425,490
Total				$8,238,106
Less Pro Forma Net Revenue Requirements				(8,294,878)
Plus Penalties				57,399
Variance				$627
Percentage				0.01%

(1) Normalized TSS loading for W.R. Grace which was historically high in 2019.

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

Phase II

CALCULATION OF PRO FORMA REVENUES
AT PROPOSED RATES AND CHARGES

	Pro Forma Rate	Billing Determinates		Pro Forma Revenues
Pro Forma Annual Revenues:				
Billing Charge	$2.43	81,973	Annual bills	$199,194
Base Charge:				
Meter Size				
5/8"	$10.80	72,788	Annual connections	786,110
3/4"	16.20	4,653	Annual connections	75,379
1"	27.00	1,625	Annual connections	43,875
1-1/2"	62.64	976	Annual connections	61,137
2"	108.00	1,173	Annual connections	126,684
3"	248.40	225	Annual connections	55,890
4"	432.00	310	Annual connections	133,920
6"	982.80	124	Annual connections	121,867
8"	1,749.60	76	Annual connections	132,970
10"	2,732.40	11	Annual connections	30,056
12"	3,937.68	12	Annual connections	47,252
Treatment Rate:				
First 100,000 gallons	$2.75	537,290	1,000's of gallons	1,477,548
Over 100,000 gallons	4.90	968,276	1,000's of gallons	4,744,552
Pretreatment Program:				
Base charge	$646.70	26	Pretreatment customers	201,770
Monitoring event charge	449.82	245	Annual monitoring events	110,206
Excess Strength (Metered Sewer):				
COD	$0.22	388,725	Pounds	85,520
TSS	0.66	697,525	Pounds (1)	460,367
Total				$8,894,297
Less Pro Forma Net Revenue Requirements				(8,958,781)
Plus Penalties				57,399
Variance				($7,085)
Percentage				-0.08%

(1) Normalized TSS loading for W.R. Grace which was historically high in 2019.

EAST CHICAGO SANITARY DISTRICT
(Wastewater Division)

Phase III

CALCULATION OF PRO FORMA REVENUES
AT PROPOSED RATES AND CHARGES

	Pro Forma Rate	Billing Determinates		Pro Forma Revenues
Pro Forma Annual Revenues:				
Billing Charge	$2.62	81,973	Annual bills	$214,769
Base Charge:				
Meter Size				
5/8"	$11.63	72,788	Annual connections	846,524
3/4"	17.44	4,653	Annual connections	81,148
1"	29.06	1,625	Annual connections	47,223
1-1/2"	67.43	976	Annual connections	65,812
2"	116.25	1,173	Annual connections	136,361
3"	267.38	225	Annual connections	60,161
4"	465.00	310	Annual connections	144,150
6"	1,057.89	124	Annual connections	131,178
8"	1,883.27	76	Annual connections	143,129
10"	2,941.16	11	Annual connections	32,353
12"	4,238.52	12	Annual connections	50,862
Treatment Rate:				
First 100,000 gallons	$2.96	537,290	1,000's of gallons	1,590,378
Over 100,000 gallons	5.27	968,276	1,000's of gallons	5,102,815
Pretreatment Program:				
Base charge	$696.11	26	Pretreatment customers	217,186
Monitoring event charge	484.19	245	Annual monitoring events	118,627
Excess Strength (Metered Sewer):				
COD	$0.24	388,725	Pounds	93,294
TSS	0.71	697,525	Pounds (1)	495,243
Total				$9,571,213
Less Pro Forma Net Revenue Requirements				(9,643,000)
Plus Penalties				57,399
Variance				($14,388)
Percentage				-0.15%

(1) Normalized TSS loading for W.R. Grace which was historically high in 2019.