

ORIGINAL

STATE OF INDIANA

Commissioner	Yes	No	Not Participating
Huston	√		
Veleta	√		
Ziegner	√		

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF SOUTHERN MONROE)
WATER AUTHORITY FOR A NEW SCHEDULE) CAUSE NO. 46245 U
OF RATES AND CHARGES FOR WATER)
SERVICE AND REQUEST FOR FINANCING) APPROVED: DEC 03 2025
AUTHORIZATION)

ORDER OF THE COMMISSION

Presiding Officers:
David E. Veleta, Commissioner
Kehinde Akinro, Administrative Law Judge

On May 15, 2025, Southern Monroe Water Authority (“Southern Monroe” or “Applicant”) filed its Small Utility Rate Application (“Application”) with the Indiana Utility Regulatory Commission (“Commission”) pursuant to the provisions of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. On June 6, 2025, the Commission’s Water and Wastewater Division issued a Memorandum indicating that the Application was complete.

On September 14, 2025, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its report (“Report”) with the Commission as required by 170 IAC 14-1-4(a). The Report detailed its review of the Application and made several recommendations to the Commission concerning the relief requested by Applicant.

Pursuant to Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 8,000 customers, unless a hearing is requested by at least ten customers, a public or municipal corporation, or the OUCC. No request for a hearing was received by the Commission. Accordingly, no hearing has been held.

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

1. Notice and Commission Jurisdiction. Southern Monroe is a water authority constituted under Ind. Code § 13-18-16-16 and is subject to Ind. Code § 8-1.5-3-8 for purposes of setting its rates and charges. In addition, under Ind. Code §§ 8-1-2-76 through 8-1-2-80, the Commission has jurisdiction over a public utility’s issuance of stocks, bonds, and debt. Therefore, the Commission has jurisdiction over Applicant and the subject matter of this Cause. Southern Monroe published legal notice of filing this small utility rate case as required by 170 IAC 14-1-2(b). Therefore, we find that notice of this Cause was given and published as required by law. The Commission also finds the Application satisfies the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Accordingly, the Commission has jurisdiction over Southern Monroe and the subject matter of this proceeding.

2. **Applicant’s Characteristics.** Applicant is a water authority organized and existing under and through the laws of the State of Indiana. Applicant serves approximately 3,500 customers within Monroe County, south of Bloomington. Applicant has its principal office at 5790 S. Fairfax Road, Bloomington. Applicant purchases its water wholesale from the City of Bloomington (“Bloomington”)

3. **Test Period.** The test year selected for determining Southern Monroe’s revenues and expenses reasonably incurred in providing water service to its customers included the 12 months ended December 31, 2024. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test year is sufficiently representative of Southern Monroe’s normal operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** The Commission approved Southern Monroe’s current rates and charges in the Commission’s May 11, 2011 Order in Cause No. 43952 U. In its Application filed in the current Cause, Southern Monroe requests a 45.45% across-the-board rate increase to produce an additional \$606,811 of operating revenues for operational costs, debt service, planned extensions and replacements (“E&R”). Southern Monroe also requests financing authority in the amount of \$1,451,000 to fund the construction of a booster station at the Smithville Tank #1 (“Smithville Booster Station”).

5. **OUCR Report.** The OUCR proposed a rate increase of 37.75% to produce \$504,087 of additional revenue, which is a decrease of \$102,724 from the Applicant’s proposal. If approved, a residential customer using 4,000 gallons per month would see their bill increase from \$31.40 to \$43.24.

The OUCR accepted Southern Monroe’s proposed pro forma annual operating revenues of \$1,375,820, which includes a \$3,230 increase to water sales to reflect residential customer growth in water sales during the test year. In addition, the OUCR recommended Applicant follow the National Association of Regulatory Utility Commissioners (“NARUC”) Uniform System of Accounts to record revenues.

With respect to operating expenses, Mr. Malan testified Southern Monroe proposed pro forma operating expense of \$1,787,682, which is an increase of \$329,358 over test year operating expense of \$1,458,324. Southern Monroe’s increase consists of four adjustments: (1) a \$1,559 increase to purchased water, (2) a \$47 increase to purchased power, (3) a \$62 increase to postage, and (4) an increase of \$327,690 to other expense for the inclusion of a lead service line inventory (“LSLI”) program. The OUCR accepted three of the four proposed test year operating expense adjustments but disagreed with Southern Monroe’s adjustment for LSLI costs. The OUCR did not agree with Applicant’s accounting treatment of the proposed test year operating expense adjustment of \$327,690 for the inclusion of the LSLI program. The OUCR explained that the LSLI program expense should be treated as capital expenditures included in its proposed E&R revenue requirement. The OUCR also made an adjustment to Applicant’s miscellaneous expense of \$102,548 to remove a non-allowed test year expense for loss of sale of equipment. The OUCR’s adjustment would result in a decrease of \$102,548 to test year miscellaneous expense of \$241,005 for a total recommended pro forma miscellaneous expense of \$138,519.¹

¹ OUCR adjustment in conjunction with Applicant’s adjustment ($\$245,005 + 62 - 102,548 = \$138,519$).

Mr. Malan accepted Applicant's proposed annual E&R revenue requirement of \$71,055. However, he recommended the annual E&R revenue requirement be set at \$398,745, to include Applicant's proposed LSLI costs of \$327,690. He further recommended that the LSLI cost be removed as part of the revenue requirement and the rates revised after 24 months of recovery.

Mr. Dellinger testified regarding Southern Monroe's proposed debt and debt service revenue requirement. He recommended approval of the \$1,451,000 debt authority for the construction of the Smithville Booster Station, and recommended approval of annual debt service of \$140,270. Mr. Dellinger discussed using subsidized sources of funding for cost savings, such as Rural Development loans from the United States Department of Agriculture and state Revolving Fund loans from the Indiana Finance Authority. He testified that timing prevented Applicant from pursuing this option at this time.

Additionally, Mr. Dellinger recommended Applicant be required to true-up its proposed annual debt service once the interest rate on its proposed debt is known so that Applicant's rates reflect the actual cost of the debt. He added that if both parties state in writing to the Commission that the increase or decrease indicated by the report need not occur because the increase or decrease would be immaterial, the true-up need not be implemented. He proposed the following true-up process:

(1) Within 30 days of closing on its debt issuance, Applicant should file a report explaining the terms of the loan, indicating the actual balance borrowed, and including bid tabulations. The report should include a revised tariff, amortization schedule (if applicable) and a calculation of the rate impact in a form similar to the OUCC's schedules.

(2) If there is a delay of more than two months in closing the debt, an amount of \$11,689 per month should be placed in a restricted account to reduce the ultimate amount borrowed. If the financing has not closed within 18 months of the final order, the balance in the restricted account should be refunded to ratepayers and the tariff adjusted to remove the debt service revenue requirement.

(3) The OUCC should be provided 21 days after service of the true-up to review and respond to the true-up filings. Applicant should also have 21 days to respond to any concerns raised by the OUCC.

Ms. Willoughby testified regarding Southern Monroe's water loss. She noted that Southern Monroe had more than 20 water main leaks in each of the past three years, and as of July 31, 2025, it has had 15 leaks. He testified that Southern Monroe ascertained the cause of its water main leaks to be mostly related to older pipes and customers or utility contractors causing damages. Ms. Willoughby testified Southern Monroe has taken steps to reduce its water loss, including using valves to isolate segments of water main in combination with acoustic devices to listen for leaks, having a water meter replacement program, which has resulted in the replacement of approximately 78% of customer meters since 2016. She recommended Applicant develop a water loss prevention plan and an asset management plan that includes a plan for regular water main replacement. Additionally, she recommended Applicant include in its water loss prevention plan the following three water loss reduction processes: (1) installing master meters at strategic points in the distribution system to help identify water loss, (2) updating the utility system map to reduce

customer/utility contractors causing damage, and (3) developing a water main replacement program.

6. Consumer Comments. The OUCC received several consumer comments, which generally opposed Southern Monroe's rate increase, citing among other things, the amount of the increase, inflation, and the resulting financial strain on customers.

7. Southern Monroe's Response. In its response to the OUCC's Report, Southern Monroe agreed to the OUCC's proposed adjustments and accepted the recommended percentage of rate increase. However, Southern Monroe did not agree to the OUCC's recommended reduction in the revenue requirements and rate after 24 months. Applicant stated that the most beneficial approach for the utility and its customers is to utilize the rate increase to address increasing water loss.

8. Commission Discussion and Findings.

A. Applicant's Borrowing Authority. Under Ind. Code §§ 8-1-2-76 through -81 and Ind. Code § 8-1-4-1, the Commission has authority to approve a public utility's proposal to issue bonds, notes, or other evidence of indebtedness payable more than one year from their execution. Southern Monroe seeks authority to issue debt in the amount of \$1,451,000 to fund construction of the Smithville Boster Station. The OUCC recommended approval of Applicant's requested financing authority as well as an annual debt service revenue requirement in the amount of \$140,270.

Based on the evidence, the Commission finds Southern Monroe should be authorized to enter into the debt financing. The evidence demonstrates that Southern Monroe's proposed capital projects for which the financing will be used are necessary and the proposed financings are reasonable for completing those projects. Specifically, we find that the construction of the Smithville Booster Station is needed to further reduce Southern Monroe's elevated water losses and the financing will allow Southern Monroe to make the necessary improvements.

B. True-Up. We find the OUCC's true-up proposals, which Southern Monroe did not contest, to be reasonable and approve them. As noted by the OUCC, Southern Monroe's precise interest rates, borrowing amount, and annual debt service for the approved borrowing authorization will not be known until Applicant's debt has been issued. Therefore, Southern Monroe's rates should be trued up to reflect the actual cost of the debt. Southern Monroe shall file under this Cause a report within 30 days of closing its debt issuance explaining the terms of the new loan, indicating the actual balance borrowed, and providing bid tabulations (the results of the bids for the projects, or the cost support if these bids are not available). The report shall include a revised tariff, amortization schedule, and a calculation of the rate impact in a form similar to the OUCC's schedules. Collection of revenues for the debt will be immediate with the implementation of rates authorized by this Order. To help prevent a misalignment of costs and revenues if the debt is not issued promptly, if new debt is not issued within 60 days of the receipt of this Order, an amount of \$11,689 per month shall be placed in a restricted account and used to reduce the ultimate borrowing. If the borrowing has not taken place within 18 months of this Order, the amount in this

restricted fund shall be refunded to ratepayers and the tariff adjusted to remove the debt service revenue requirement.

Mr. Delinger recommended that if Southern Monroe and the OUCC state in writing to the Commission that the increase or decrease indicated by the true-up report need not occur because the increase or decrease would be immaterial, the true-up need not be implemented. We find this recommendation to be reasonable and approve the same.

We also find the OUCC's recommendations as to the filing deadlines for disputes regarding Southern Monroe's true-up report, which Southern Monroe did not contest, to be reasonable. The OUCC's request for 21 days to review the true-up report is a reasonable amount of time for the OUCC to review such information. A mirroring timeframe for Applicant to review the OUCC's response is equally appropriate. As such, the OUCC shall file any objection to Applicant's true-up report within 21 days after service of the true-up report, after which Southern Monroe shall have 21 days to file a reply to the OUCC's objection.

C. Rates and Revenue Requirement. Rates are calculated by first determining the amount of the adjusted net operating expenses based on the utility's current rates. The adjusted amounts are based on known recurring expenses, updated to include changes that are fixed, known, and measurable, and expected to occur within 12 months of the end of the test year. A comparison of Southern Monroe's and the OUCC's proposed revenue requirements is shown in the chart below:

	Per Applicant	Per OUCC	Per Rebuttal	OUCC More (Less)
Operating Expenses	\$ 1,787,682	\$ 1,357,444	\$1,357,444	\$ -
Extensions and Replacements	71,055	398,745	398,745	\$ -
Debt Service	140,270	140,270	140,270	\$ -
Debt Service Reserve	-	-	-	\$ -
Total Revenue Requirements	1,999,007	1,896,459	1,896,459	\$ -
Less: Interest Income	17,286	17,286	17,286	\$ -
Net Revenue Requirements	1,981,721	1,879,173	1,879,173	\$ -
Less: Revenues at current rates subject to increase	(1,335,209)	(1,335,209)	(1,335,209)	\$ -
Other revenues at current rates	(40,611)	(40,611)	(40,611)	\$ -
Net Revenue Increase Required	605,901	503,353	503,353	\$ -
Add: Additional IURC Fees	910	734	734	\$ -
Recommended Increase	\$ 606,811	\$ 504,087	504,087	\$ -
Recommended Percentage Increase	45.45%	37.75%	37.75%	-7.70%

In its Application, Applicant requested a new schedule of rates and charges for water service resulting in a 45.45% rate increase or \$606,811 of additional revenues associated with increased operational costs and capital improvements. The OUCC, in its Report, recommended a 37.75% rate increase or a \$504,087 increase in operating revenues on an across-the-board basis.

The evidence of record indicates that the Parties have provided the Commission with sufficient information to determine that the public's interest can best be served by accepting Applicant's small utility filing, as modified by the OUCC's adjustments and recommendations which Applicant has accepted. Therefore, based on the evidence presented, the Commission finds that an across-the-board rate increase of 37.75% or \$504,087 increase in operating revenues should be approved for Applicant.

The Commission finds that Southern Monroe should retain the funds from the LSLI, rejecting the OUCC's recommendation that the LSLI cost be removed as part of the revenue requirement and the rates revised after 24 months of recovery. Southern Monroe shall apply these funds to replace some of its water mains and address its elevated water loss.

9. Effect on Rates. A residential customer of Southern Monroe using 4,000 gallons per month currently pays \$31.40. Under this rate increase, such a customer would pay \$43.24, an increase of \$11.84 from current rates.

10. Alternative Regulatory Program ("ARP"). If Applicant elects to participate in the Small Utility ARP in accordance with procedures approved in Cause No. 46245 U, the eligible operating expenses to which the Annual Cost Index will be applied are \$745,716. Extensions and Replacements of \$398,745 are also eligible expenses to which the Annual Cost Index will be applied.

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

1. Consistent with the above findings, Southern Monroe Water Authority is authorized to increase its rates and charges by \$504,087 annually, which represents a 37.75% across-the-board increase in its water service rates and charges.

2. Southern Monroe Water Authority is authorized to borrow up to \$1,451,000 in debt for the construction of the Smithville Booster Station, with an annual debt service revenue requirement of \$140,270, subject to the true-up process set forth above.

3. Southern Monroe Water Authority shall place \$11,689 per month in a restricted account if the debt is not issued within 60 days of this Order. The amount in this restricted account shall be refunded to ratepayers and the tariff adjusted to remove the debt service requirement if the borrowing has not taken place within 18 months of this Order.

4. Prior to placing into effect the rates and charges approved herein, Southern Monroe Water Authority shall file with the Commission's Water and Wastewater Division a schedule of rates and charges in a manner consistent with this Order and the Commission's rules. Such rates shall be effective on and after the date of this Order, subject to the Division's review and agreement with the amounts reflected.

5. Southern Monroe Water Authority shall develop a water loss prevention plan and an asset management plan that includes a regular water main replacement plan. Southern Monroe Water Authority shall file a report annually under this Cause summarizing any plans developed or work completed in regard to its water loss reduction activities.

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

HUSTON, VELETA, AND ZIEGNER CONCUR:

APPROVED: DEC 03 2025

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

**Dana Kosco
Secretary of the Commission**