



For Immediate Release

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OUCC recommends denial of Indiana American Water rate request

The Indiana Office of Utility Consumer Counselor (OUCC) is recommending denial of Indiana American Water Company's (IAWC's) request for a \$38.8 million rate increase (or 17.5 percent over current revenues). The OUCC's analysis shows that a decrease of \$16.9 million (or 7.6 percent) is more appropriate, instead.

Eight OUCC witnesses filed testimony and exhibits with the Indiana Utility Regulatory Commission (IURC) Friday evening. The OUCC, which represents consumer interests in cases before the IURC, has used its legal and technical resources to analyze IAWC's request over the last three months.

Two major concerns the OUCC raises are: 1) IAWC's authorized return on investment should be lower than what it is requesting and 2) The utility's evidence does not establish that the costs of its proposed capital projects are reasonable.

"Indiana law allows an investor-owned utility to earn a fair rate of return on its investments each year through rates. However, IAWC's evidence does not show justification for the specific return it is seeking in this case," said Indiana Utility Consumer Counselor Bill Fine. "The documentation we have seen, both through IAWC's filings with the Commission and information the utility has provided to us through legal discovery, fails to substantiate the request."

IAWC is seeking to have its authorized return on equity (ROE) increased from 9.75 percent to 10.8 percent annually. The OUCC's analysis shows that an 8.5 percent return is appropriate. As pointed out in the OUCC's testimony:

- The utility's estimated cost of equity assumes future market returns that are much higher than the S&P 500's historical return.
- Current inflation rates are at historically low levels. Lower inflation rates generally translate into lower capital costs.
- IAWC has used a balanced capital structure (50 percent equity and 50 percent long-term debt) in its last three base rate cases. In this case, its proposed structure goes up to more than 56 percent equity. Maintaining a 50/50 balance would reduce rates.
- IAWC and other water/wastewater utilities face lower financial risks due to provisions in state law that allow them to raise rates for specific purposes between general rate cases. Rate increases under those mechanisms – also known as "trackers" – are subject to OUCC review and IURC approval, but the cases proceed under extremely short timeframes.
 - The Distribution System Infrastructure Charge (DSIC) allows water and sewer utilities to seek rate increases between general rate cases to pay for aging infrastructure replacements. IAWC has received DSIC rate increases in 2016, 2017, and 2018.
 - The System Integrity Adjustment (SIA) allows water and sewer utilities to seek expedited rate increases if they do not collect their authorized revenues. IAWC has not used this mechanism. However, its pending rate request includes proposed accounting adjustments to make up for declining water use by residential customers.

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The OUCC's testimony also includes significant reductions to requested cost recovery for numerous proposed infrastructure improvements, on the basis that the utility has overstated the costs on certain items and not provided detailed cost estimates on certain additional items.

- IAWC is seeking rate recovery for more than \$326 million in capital projects, including \$170 million for ongoing/recurring projects throughout its service territories. The utility's evidence includes dollar amounts for those projects over the next three years but does not include detailed information supporting the numbers. Without detailed information, the OUCC cannot determine whether the costs are reasonable and prudent as required by state law.
- The OUCC is recommending \$10 million in improvements to IAWC's Richmond treatment plant. By comparison, the utility proposes demolishing and reconstructing the plant at an estimated cost of \$45 million.
- Costs for improvements to IAWC's Muncie treatment plant would be reduced by \$5 million under the OUCC's recommendations, due to unsubstantiated increases to the project's costs.

While the OUCC supports the need for utilities to replace aging infrastructure, utilities must provide sufficient evidence justifying the proposed costs before charging them to customers.

In addition, the OUCC's testimony addresses IAWC's proposal to raise its flat, monthly residential customer charge from \$14.23 to \$22.35 in 2020. The OUCC states that such an increase to the portion of the bill not varying by usage is unnecessary, and is contrary to effective conservation efforts.

IAWC, which provides service to approximately 302,000 customers in more than 50 Indiana communities, has until January 22, 2019 to file rebuttal testimony. An IURC evidentiary hearing is scheduled to start on February 14, 2019 and may last several days if necessary, with a Commission order expected in the months to follow.

(IURC Cause No. 45142)

The Indiana Office of Utility Consumer Counselor (OUCC) represents Indiana consumer interests before state and federal bodies that regulate utilities. As a state agency, the OUCC's mission is to represent all Indiana consumers to ensure quality, reliable utility services at the most reasonable prices possible through dedicated advocacy, consumer education, and creative problem solving.

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