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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

JOINT REPORT OF EASTERN HENDRICKS)
 COUNTY UTILITIES, INC. ("EASTERN") AND)
 WEST CENTRAL CONSERVANCY DISTRICT)
 ("DISTRICT") OF PROPOSED UTILITY)
 STOCK TRANSFER, REQUEST FOR) CAUSE NO. 44674
 APPROVAL TO TRANSFER EASTERN'S)
 UTILITY ASSETS TO DISTRICT AND FOR)
 RELINQUISHMENT AND SURRENDER OF) APPROVED: DEC 16 2015
 EASTERN'S CERTIFICATE OF)
 TERRITORIAL AUTHORITY EFFECTIVE ON)
 THE TRANSFER OF EASTERN'S STOCK TO)
 DISTRICT.)

ORDER OF THE COMMISSION

Presiding Officers:
James F. Huston, Commissioner
David E. Veleta, Administrative Law Judge

On September 2, 2015, Eastern Hendricks County Utilities, Inc. ("Eastern") and West Central Conservancy District ("District") (collectively "Joint Petitioners") filed their Joint Report of Proposed Utility Stock Transfer and Request for Approval to Transfer Eastern's Assets to the District and for Relinquishment and Surrender of Eastern's Certificate of Territorial Authority ("CTA") effective at the closing on the transfer of Eastern's stock to the District.

On October 30, 2015, Joint Petitioners filed their respective prepared testimony and exhibits constituting their cases-in-chief with the Indiana Utility Regulatory Commission ("Commission").

On November 10, 2015, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the prepared testimony of James T. Parks in support of the proposed relief.

A public hearing in this Cause was held on November 24, 2015, at 10:30 A.M., in Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Joint Petitioners and the OUCC appeared and participated in the hearing. No members of the general public appeared.

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

1. **Notice and Jurisdiction.** Notice of the public hearing conducted herein was given by the Commission as required by law. Eastern is a "public utility" within the meaning of that term in Ind. Code § 8-1-2-1. The District is a conservancy district seeking to acquire the stock of Eastern and subsequently dissolve Eastern and transfer Eastern's assets to the District pursuant to

Ind. Code §§ 8-1-2-83 and 89. The Commission has jurisdiction over Joint Petitioners and the subject matter of this proceeding.

2. **Joint Petitioners' Characteristics.** Eastern is an Indiana investor-owned corporation formed in 1975 for the purpose of providing sewage service in rural areas within Hendricks County, Indiana. Eastern is a closely held corporation managed by Jon Handy. All of the stock of Eastern is held by the Jon D. Handy Revocable Trust. Eastern was duly issued a CTA to render sewage collection, treatment and disposal service in Cause No. 33538. As stated above, Eastern is a "public utility" as defined in Ind. Code § 8-1-2-1, as well as a "sewage disposal company" as that term is defined in Ind. Code § 8-1-8-9.

The District is a duly organized conservancy district existing under the laws of the State of Indiana, more particularly Ind. Code ch. 14-33-1. The District was established for the purpose of the collection, treatment, and disposal of sewage and other liquid wastes. The District's boundaries completely surround and include the area served by Eastern and Eastern's CTA. Eastern has virtually no prospect for growth since there are only two vacant lots remaining in the subdivision within its CTA. The District possesses the lawful power and authority to provide for the collection, treatment and disposal of sewage and other liquid waste in the area served by Eastern and included in Eastern's CTA.

3. **Relief Requested.** Joint Petitioners request that the Commission (1) grant such approvals as may be necessary to consummate the acquisition by the District of stock of Eastern as provided in the Stock Purchase Agreement ("Purchase Agreement") which was submitted as part of Joint Petitioners' evidence and thereafter the liquidation of Eastern and transfer of Eastern's assets to the District; and (2) terminate Eastern's authority under its CTA and find that all of Eastern's obligations in connection with providing wastewater utility service pursuant to its CTA have ended.

4. **Evidence Presented.**

A. **Eastern's Evidence.** John R. Skomp, a Partner with Crowe Horwath LLP, a certified public accounting and consulting firm, testified on behalf of Eastern. Mr. Skomp testified that, due to the significant anticipated rate increase associated with Eastern undertaking substantial renovations and repairs, he recommended that Eastern consider interconnecting with the District or explore the option for an outright sale of Eastern to the District.

Mr. Skomp testified that he did not prepare a formal report or deliverable as part of his analysis but, rather, that he had been consulting with Mr. Jon Handy, Eastern's manager, on the financial operations of utility companies for over 20 years and had worked with Mr. Handy to process Eastern's most recent rate filing. In its Order in Cause No. 43795-U, the Commission permitted a 9.98% rate increase which resulted in Eastern's current rate of \$42.89 per month. Mr. Skomp noted that this rate was calculated based on a rate base that was determined by the Commission to be \$191,207 which allowed for pro forma net operating income of \$19,121.

Despite not preparing a formal report or deliverable, Mr. Skomp testified that he assessed the potential rate impact due to the potential renovations and repairs by analyzing Eastern's

financial information and through discussions with Mr. Handy regarding the cost of proposed renovations. He stated that, while there had not been a significant change in Eastern's operations since the last rate increase, the estimated cost of the renovations and repairs would be in the range of \$325,000; given the current rate base of \$191,207, this cost would have a significant impact on Eastern's requirements for annual depreciation expense, annual property tax expense, and annual allowable net operating income.

Ultimately, Mr. Skomp testified that, assuming the same capital structure and overall rate of return used in the last rate case, the change in these three items alone would require additional operating revenues of over \$50,000. Given that Eastern's operating revenues were found to be approximately \$144,000 annually, an increase of \$50,000 would be very significant. Mr. Skomp testified that in order to support an investment of \$325,000, as well as annual operating costs, he would expect to recommend to the Commission a rate increase in the range of \$65.00 per month.

Mr. Skomp further testified that because Eastern's service area contains only about 260 customers with no potential options for growth in the area, the entirety of Eastern's increased cost would need to be borne by its current customer base, which would increase customer complaints and concerns. Based on these discussions, Mr. Skomp stated that Mr. Handy decided to thoroughly explore options with the District prior to moving forward with any other analysis on the renovations and repairs.

B. The District's Evidence. Mr. Ronnie W. Goff, the District's Manager, testified on behalf of the District. Mr. Goff testified that while the District initially served 175 customers and encompassed 2,100 acres, the District had grown over the last 27 years to serving approximately 9,000 customers with boundaries of approximately 25,000 acres. Additionally, the District had an asset base of over 76 million dollars, cash and cash equivalents of over 10 million dollars, with long term liabilities of approximately 29 million dollars. Mr. Goff testified that, as of December 31, 2014, the District's net assets equaled \$47,191,901.

Mr. Goff further testified that the area included within Eastern's CTA was now within the boundaries of the District, and that the District would have capacity to treat Eastern's current flow of approximately 75,000 gallons per day and still have remaining capacity for approximately 9,000 additional residential users or equivalent dwelling units of capacity. He stated that because of the District's existing capacity, it could (1) pay the cost of acquiring Eastern, (2) demolish the existing plant, (3) construct a new lift station to service Eastern's flow and treat the wastewater flow generated from Eastern's customers, and only increase Eastern's monthly rate by \$2.11 to a flat rate of \$45.00 per month. This would equalize Eastern's customers' rate to the rate the District's customers pay and have paid since 2004. Mr. Goff further stated that the District was prepared to render comparable sewage disposal service to Eastern's customers as of January 1, 2016, when, on that date, the flow from Eastern's customers will be directed to a lift station being constructed by the District; therefore, there will be no loss of continuity of service.

Mr. Goff stated that the District had obtained two appraisal reports, one from O.W. Krohn & Associates, LLP and the other from Access Valuation, LLC, assessing Eastern's system valuation at \$588,451 and \$760,000, respectively. Mr. Goff further testified that the parties agreed on a purchase price of \$565,000, which satisfied the requirement of Ind. Code ch. 36-1-10.5. that

the purchase price not exceed the average of the two appraisals. He stated that the District had the financial ability to purchase Eastern as well as construct the required infrastructure and lift station, either with bond proceeds or unrestricted cash. Mr. Goff testified that Eastern's financial consultant, Doug Baldessari of H.J. Umbaugh & Associates, had provided the District with an accounting report and would testify further as to the financial impact and feasibility of Eastern's acquisition.

Mr. Goff concluded his testimony by stating that Eastern and the District are reporting to the Commission the proposed stock transfer and requesting approval of the transfer of the physical assets of Eastern to the District, as well as the approval of the surrender of Eastern's existing CTA upon the transfer. Details of the sale and transfer are outlined in the Purchase Agreement executed between Eastern and the District, which was submitted as part of Joint Petitioners' evidence herein; Mr. Goff testified further that notice of the sale had been given to Eastern's customers, who had expressed approval of the transaction. Finally, Mr. Goff testified that the terms of the sale, as provided in the Purchase Agreement, are reasonable, and the contemplated transaction is in the best interests of the District's freeholders.

Mr. Douglas Baldessari, a Certified Public Accountant with the firm H.J. Umbaugh & Associates ("Umbaugh"), Certified Public Accountants, LLP, also testified on behalf of the District. Mr. Baldessari testified generally as to the financial aspects of the proposed sale and transfer, as well as Eastern's current financial and infrastructure needs. Mr. Baldessari further described the contents of Umbaugh's special purpose accounting report summarizing its findings on the proposed acquisition of Eastern. He stated that Eastern's acquisition made sense from a user fee perspective for both Eastern and the District's users. Mr. Baldessari concluded his testimony by stating that, in his opinion, the District had the financial capability to purchase the assets of Eastern, pay for the project to connect Eastern and operate the system.

C. **OUCC's Evidence.** Mr. James T. Parks, a Utility Analyst II in the Water/Wastewater Divisions of the OUCC, testified generally as to the operations of Eastern and the District, as well as the financial aspects of the proposed transaction. Mr. Parks testified that he had no concerns about the District's ability to provide safe, adequate and reliable wastewater utility service to Eastern's customers. Further, he agreed that Eastern's CTA would no longer be necessary once the acquisition was complete. Mr. Parks concluded his testimony by recommending the approval of the requested relief, including the relinquishment or surrender of Eastern's CTA effective upon transfer of Eastern's stock to the District.

5. **Commission Discussion and Findings.** Given that this transaction will ultimately require transfer of Eastern's assets to the District and resulting surrender of Eastern's CTA, our approval is required pursuant to Ind. Code §§ 8-1-2-83 and 89.

From the evidence presented, we find that the District has the requisite legal authority to provide sewage disposal service and is prepared to render sewage disposal service to Eastern's customers on January 1, 2016, the effective date of the transfer. Therefore, there will be no loss of continuity of service for Eastern's customers as, on the effective date, the flow from Eastern's customers will be directed to a lift station being constructed by the District. Additionally, we find that the proposed transaction is reasonable and in the best interests of Eastern's customers, as there

will be an increase in these customers' rates of only \$2.11 per month compared to an increase of approximately \$22.00 per month if Eastern were to undertake the necessary renovations and repairs itself. Accordingly, we find that Eastern's request to transfer ultimately its physical assets to the District, and to surrender its CTA upon the effective date of the transfer, is in the public interest, satisfies the requirements of the Indiana Code and should be granted.

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

1. Eastern is authorized to transfer its sewage disposal system, including all of the physical utility assets, to the District consistent with the terms of this Order.

2. Eastern's CTA to render sewage collection, treatment and disposal service, issued in Cause No. 33538, shall be deemed surrendered on the date of the completion of the sale and transfer of Eastern's stock and physical assets to the District, and Eastern shall not provide or be under any further obligation to provide sewage collection, treatment and disposal services within the service area governed by the CTA.

3. Within 10 days of the completion of the sale and transfer of Eastern's stock and physical assets to the District, the District shall file a report in this Cause, serving all parties, notifying the Commission of the date of completion of the sale of stock and transfer of the assets to the District.

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

STEPHAN, MAYS-MEDLEY, HUSTON, WEBER, AND ZIEGNER CONCUR:

APPROVED: DEC 16 2015

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



**Shala M. Coe, Acting
Secretary to the Commission**