ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF WEDGEWOOD PARK WATER COMPANY, INC., FOR APPROVAL OF (1) THE ISSUANCE OF LONG-TERM BONDS, NOTES OR OTHER EVIDENCE OF INDEBTEDNESS, (2) FOR AUTHORITY TO ENCUMBER ITS FRANCHISE, WORKS AND SYSTEM IN CONNECTION WITH SUCH BORROWING, (3) FOR A CERTIFICATE OF AUTHORITY TO ISSUE LONG-TERM DEBT, (4) FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, (5) FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR WATER SERVICE, AND (6) FOR APPROVAL OF CERTAIN UTILITY ACCOUNTING PROCEDURES.	**CAUSE NO. 44369** **APPROVED:** NOV 06 2013

ORDER OF THE COMMISSION

Presiding Officers:
Larry S. Landis, Commissioner
Gregory R. Ellis, Administrative Law Judge

On July 19, 2013, Wedgewood Park Water Company, Inc. ("Petitioner" or "Wedgewood") filed its Verified Petition with the Indiana Utility Regulatory Commission ("Commission") seeking approval to issue long-term debt, an increase in its rates and charges for water service and authority to implement certain accounting procedures.

On September 3, 2013, Wedgewood prefiled the testimony and exhibits of Dennis Jusko, Patrick Callahan and Terrence E. Baugher as its case-in-chief. On October 10, 2013, the Indiana Office of Utility Consumer Counselor ("OUCC") filed the testimony and exhibits of Charles E. Patrick and Larry W. McIntosh in support of a settlement in this Cause. On October 16, 2013, Wedgewood and the OUCC filed their Joint Submission of Stipulation and Settlement Agreement ("Settlement Agreement").

Pursuant to notice duly published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission an Evidentiary Hearing was held in this Cause on October 24, 2013, at 9:30 a.m., in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. Petitioner and the OUCC were present and participated. At the evidentiary hearing, Petitioner moved to amend the caption of this Cause such that the name "Wedgewood Park Water, Inc." would then read "Wedgewood Park Water Company, Inc." which motion was granted. The testimony and exhibits of Petitioner and the OUCC were admitted into the record without objection. No members of the general public appeared or sought to testify at the hearing.

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

1. **Notice and Jurisdiction.** Notice of the hearing in this Cause was given and published by the Commission as required by law. Wedgewood is a public utility as defined in Ind. Code § 8-1-2-1(a). Pursuant to Ind. Code §§ 8-1-2-10, 12, 38, 42, 61, 71, 78 and 83, the Commission has jurisdiction over rates, charges, financing and accounting. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this Cause.

2. **Petitioner's Characteristics.** Petitioner is an investor-owned public utility corporation duly organized and existing under and pursuant to the laws of the State of Indiana, with its principal place of business located at 30198 Fox Run Trail, Granger, Indiana. Petitioner has the corporate power and authority to provide water utility service and does so for 211 residential and 5 commercial customers in an area near the Michigan state line in St. Joseph County, Indiana. Petitioner's current rates and charges were approved by the Commission in Cause No. 42769-U on October 5, 2005.

3. **Relief Requested.** Petitioner requests Commission authority to increase its rates and charges for water utility service to enable it to pay its reasonable and necessary expenses as allowed by law, and provide it a fair return on the fair value of its utility property, used and useful to the public. Petitioner also requests Commission authority to borrow funds, to issue notes, and/or other evidence of debt, and to encumber its utility property by mortgage and/or other security instruments and for a certificate authorizing such financing activities. Finally, Petitioner requested accounting authority to amortize its remaining Contribution in Aid of Construction ("CIAC") account balance.

4. **Test Year and Rate Base Cut-off.** The test year to be used for determining Petitioner's actual and *pro forma* operating revenues, expenses, and operating income under present and proposed rates is the twelve months ended December 31, 2012, adjusted for changes that are fixed, known, and measurable for ratemaking purposes and that will occur within twelve months following the end of the test year. This test year, when coupled with the adjustments authorized herein, should fairly represent the annual operations of Petitioner at present and proposed rates. The rate base cut-off shall be such that the proposed plant additions constituting Petitioner's water supply interconnection project will be considered utility property for ratemaking purposes in this Cause, upon the in-service certification thereof. The Commission finds that this test period is sufficiently representative of Wedgewood's normal operations to provide reliable data for ratemaking calculations in this Cause.

5. **Petitioner's Evidence.** Petitioner offered the testimony and exhibits of Dennis Jusko, Wedgewood's President and Manager; Patrick Callahan, CPA, Wedgewood's Rate Consultant; and Terrence E. Baugher, P.E., Wedgewood's Engineer as its case-in-chief.

A. **Mr. Jusko's Testimony.** Mr. Jusko provided a description of Petitioner and its characteristics. He also described his duties as President and primary operator of the Petitioner.

Mr. Jusko explained why Petitioner is seeking borrowing authority from the Commission. He indicated that in the summer of 2012 two of Petitioner's three water wells failed. Petitioner's remaining well, which had been out of service, was returned to service. After being returned to service, the pump in the remaining well failed and had to be replaced with a lower capacity submersible pump.

Mr. Jusko testified Petitioner has the opportunity to finally solve its water supply and quality problems by purchasing its water from the nearby Niles Charter Township ("NCT") water utility which is immediately across the state line in Michigan. The water system of Niles Charter Township provides service to approximately 10,000 customers adjoining the City of Niles, Michigan. The feasibility of connecting Petitioner to Niles Charter Township's system was investigated by Petitioner's Engineer. Based on favorable results, engineering work was completed on the interconnection project and Petitioner entered into a water supply contract with Niles Charter Township, Niles, Michigan on September 12, 2012.

Mr. Jusko explained Petitioner does not have the funds on hand to pay the costs of construction of the proposed water supply interconnection with NCT (the "Project") and related costs, and must borrow the money to pay for the Project and related costs. He testified that Wedgewood obtained a loan commitment for the money to pay for the Project and related costs from the First Source Bank on July 16, 2013. Mr. Jusko noted the First Source loan commitment was conditioned upon Petitioner receiving rate relief. Further, the loan commitment would expire after ninety (90) days if the loan had not yet closed. However, Petitioner was advised by First Source Bank that the loan commitment could be extended.

Mr. Jusko testified that Petitioner needs to increase its rates and charges for service because it has experienced operating losses for the last three years. He stated Petitioner's current rates and charges are insufficient to allow Petitioner to recover its lawful expenses or to provide it with a return on the fair value of its utility property and Petitioner's operating costs are expected to increase when the water supply interconnection with NCT becomes operational.

Mr. Jusko also testified that notice of the proposed rate increase was mailed to each of its customers on August 29, 2013 as required by 170 IAC 6-1-18(C). The notice was sent by its own mailing and not as a bill insert.

B. **<u>Mr. Callahan's Testimony</u>.** Mr. Callahan testified that Wedgewood requests approval to incur long-term debt to finance the construction of a transmission line to a new source of water supply from NCT. He explained that Petitioner has experienced difficulties with its wells and pumps. He indicated that connection to NCT, a wholesale provider, is the most cost effective way to ensure reliable and safe water to its customers. He further explained the approximate total cost of the Project is $102,000. Petitioner has made a $6,000 payment toward the connection fee; therefore, $96,000 will have to be financed with long-term financing. Petitioner does not have cash to fund the Project and is seeking Commission approval to incur long-term debt to fund the Project.

Mr. Callahan testified the purpose of the proposed rate increase is to allow Petitioner a reasonable return on its investment. The proposed increase will allow Petitioner the funds to pay the debt service on the borrowed funds to connect to NCT. He noted that Petitioner has not received a return for the past four years. Mr. Callahan testified that his financial analysis and rate study support an "across-the-board" increase of 33.9%. A customer consuming 5,000 gallons per month would realize a monthly increase of $7.89, resulting in a monthly bill of $31.15. The minimum bill with a 5/8 or ¾-inch meter (allows 600 cubic feet or approximately 4,490 gallons) would increase by $7.08 per month, from the current $20.88 to $27.96.

Mr. Callahan explained that the financial rate study consists of two sections. The first section is the historical financial information of Petitioner. The financial statements were taken from the books and records of Petitioner. The second section of the financial rate study is the *pro forma* information with projections. The financial projections are based upon historical information and anticipated occurrences that are fixed, known and measurable, and will occur within twelve months following the test year. These financial projections present, to the best of management's knowledge and belief, the Utility's expected results of operations for a twelve-month period.

Mr. Callahan explained the numerous adjustments which he made to Petitioner's various accounts. He explained the several adjustments necessary to account for and recognize the addition of the proposed Project and retirement of Petitioner's water production facilities. He also noted that Petitioner's composite depreciation rate would change from 2.0% to 1.7%, since 1.7% is the rate allowed by the Commission for water utilities without water production facilities. After completing his rate analysis, Mr. Callahan concluded that Petitioner would require a 33.9%, or $23,428, annual increase in revenues.

Mr. Callahan also explained the amortization schedule for Petitioner's proposed loan. He stated the amortization is based on an interest rate of 5.50% amortized over seven years. The loan is a five-year fixed rate note on a seven-year amortization. The interest rate will be renegotiated after five years. The average annual principal and interest payments will be $16,554.

Mr. Callahan explained how he calculated the fair value of Petitioner's utility property. He determined the net original cost rate base of Petitioner to be $172,055. For purposes of this proceeding, it is assumed the net original cost utility plant in service ("UPIS") is equal to its fair value. The determination of fair value often involves the presentation of extensive and costly evidence, and contentious and time-consuming proceedings. Petitioner has proposed to assume, very conservatively, the fair value of its property is equal to the net original cost.

Mr. Callahan went on to explain the UPIS was reduced by utility plant that will not be required once the Project is completed. This includes the wells, pumping equipment, treatment equipment, generator and the reservoirs. The total cost eliminated was $114,425. The related accumulated depreciation of the retired plant was eliminated from the overall accumulated provision for depreciation. The remaining net plant in service of $68,145 is comprised of land, building, mains, meters, hydrants, office equipment, service vehicle and tools. The new project cost of $102,000 was added to the rate base, along with the working capital component. Petitioner had $8,063 of CIAC as of December 31, 2012. This amount has been on the books since at least the mid-1980s; therefore, Mr. Callahan reduced a pro-rata share of the CIAC associated to the plant that has been retired. He reduced Petitioner's fair value rate base by $4,437 of the remaining CIAC. After eliminating the retired plant, adding the new project cost, adding working capital and deducting the remaining CIAC, the fair value rate base is $172,055.

Mr. Callahan indicated Petitioner requests Commission approval to amortize the remaining CIAC over the remaining useful life of the UPIS. He proposes the CIAC to be amortized at 2.0% per year until it is fully amortized. At 2.0%, the annual amortization is only $89. Based on the National Association of Regulatory Utility Commissioners' Uniform System of Accounts manual, Mr. Callahan requests the Commission approve the annual recording of an $89 debit to the "Accumulated Amortization of CIAC" account and a corresponding credit to the depreciation expense account. This amortization would continue until the remaining unamortized CIAC is fully amortized. Mr. Callahan reflected the effect of this amortization, along with the depreciation adjustment.

Mr. Callahan explained how he calculated Petitioner's weighted cost of capital. In his calculation, he included the proposed new $96,000 loan. The interest rate on this loan is 5.50%. Petitioner has a balance of $55,203 in its equity and capital accounts, comprised of common stock, other paid-in capital and retained earnings. Mr. Callahan included the cost of equity capital at 11.00%. The resulting overall weighted cost of capital was 7.51%. The requested $12,916 return on the fair value rate base along with the depreciation allowance of $3,836 will provide $16,752 for the annual payment of $16,554 to First Source Bank.

Mr. Callahan testified that he assumed the proposed plant additions are in rate base for purposes of calculating Petitioner's proposed rates. Petitioner's proposed water supply interconnection project requires very significant retirements of existing plant and very significant plant additions. The recognition of these plant additions and retirements will have a significant impact on Petitioner's books and records. The construction of Petitioner's project is expected to be done quickly following the completion of Petitioner's proposed borrowing. It would be unrealistic and inappropriate not to reflect these significant plant additions and retirements in rates, and in Petitioner's books and records. Further, if Petitioner is not allowed to implement rates which will provide a return on the proposed plant additions, Petitioner will not be able to accomplish the proposed borrowing or make the loan payments.

Mr. Callahan testified he does not propose that Petitioner be allowed to earn a return on the proposed plant additions which are not yet built and in service. His proposal is that the Commission issue its order approving the proposed borrowing and new rates, providing for a return on Petitioner's proposed additions. However, the new rates would not be implemented until the proposed plant additions are constructed and in service.

Mr. Callahan described the proposal for the implementation of Petitioner's new rates. Once the Commission order is entered, and the lender can see the rates approved, presumably the lender will then loan Petitioner the money which will allow it to construct the Project. Petitioner's contractor will then complete the plant additions. Once the new plant additions are in service, Petitioner will make a verified filing with the Commission and the OUCC stating the plant additions are completed, in-service and used and useful. The Commission and the OUCC would have an opportunity to verify that the new plant additions are in service. If neither the Commission nor the OUCC notify the Petitioner of concerns regarding whether the new plant additions are in service, Petitioner could then file its tariff for approval by the Commission.

C. **Mr. Baugher's Testimony.** Mr. Baugher testified Petitioner provides water service to the Wedgewood Park subdivision. Petitioner serves 211 residential and 5 commercial customers. He noted Petitioner's current shareholders have owned and operated Petitioner and its water supply and distribution utility since 1994.

Mr. Baugher testified that Wedgewood's major water supply components are functionally obsolete due to their use over nearly 60 years. He testified the water production system includes two water wells constructed in 1956 and 1958, respectively. Mr. Baugher explained during the summer of 2012 including the drought period, Well 2, being the highest producing well was used exclusively for supply to the system to satisfy the summer demand, increased domestic demand and the extra load of lawn sprinkling. During this period the pump for Well 2 experienced severe packing leakage and vibration. As a result, this well was removed from service. Mr. Baugher further explained that subsequent to the cessation of Well 2, Well 1 was returned to service. Later in the year, the pump for Well 1 experienced the failure of one of its stages, resulting in loss of water supply to the subdivision for a period of hours. The Petitioner had a submersible pump installed in the casing of Well 1 to resume service during off-peak months. The production rate of this submersible pump is not considered adequate to meet peak summer system demands. At present, Wedgewood has only Well 1 available with no alternative supply, insufficient volume of stored water to carry the customer demand for longer than a few minutes, and inadequate capacity to meet peak summer water demand rates similar to those recorded in 2012. Mr. Baugher concluded the securing of an alternative water supply is imperative.

Mr. Baugher also testified that Petitioner's existing wells cannot be cost effectively repaired or replaced. Mr. Baugher testified construction of a new well is limited by the site dimensions and the fact that the well logs indicate there is no protective overlying impermeable soil strata to protect the groundwater. Further, Mr. Baugher stated the hydropneumatic tank of approximate 4,000 gallon capacity, mostly buried in a hillside, is of unknown condition and based upon age and unknown corrosion control measures, the perforation/failure of this tank is of concern.

Mr. Baugher provided testimony regarding Petitioner's water system usage during the drought of 2012. Data monitoring during the drought indicated a maximum day usage of 112,000 gallons comprised largely of lawn sprinkling demand. The typical usage on cool days without lawn sprinkling demand was determined to be around 30,000 gallons. Mr. Baugher stated the flow monitoring indicates that existing demand exceeds 140 gallons per minute for extended periods and concluded that a new source of supply must be provided to satisfy this customer demand.

Mr. Baugher indicated that Petitioner's proposed new source of supply is NCT, which is within 700 feet of Petitioner's distribution system. Mr. Baugher testified the water system of NCT serves a population of approximately 10,000 residents adjoining the City of Niles, Michigan. The system is composed of two deep wells, the distribution system, a 500,000 gallon elevated water storage tank, and an emergency water service connection with the City of Niles. The water quality produced by Niles Charter Township is highly desirable, with lower average iron content than that produced by Petitioner. The elevated tank operated by NCT allows it to provide a continuous flow of water at a pressure of 62 PSI on State Line Road. Mr. Baugher further explained the feasibility of connecting Petitioner to the State Line Road water main of the NCT water system was investigated and engineering plans were developed for the Project. Based on the engineering plans, a construction permit was obtained from the Indiana Department of Environmental Management ("IDEM") for the Project. As a result of delays in obtaining financing, a one year extension of the IDEM construction permit, through September, 2014, has been obtained. He noted NCT has also approved the engineering plans.

Mr. Baugher testified that on September 12, 2012, Petitioner entered into a contract for supply of water from NCT. Petitioner will pay: a connection fee of $11,250, of which one-half was paid at signing; the construction cost of the approximately 700 feet of six inch high density polyethylene water transmission main to be installed by horizontal directional drilling; and the cost of the master meter vault. NCT will furnish the master meter. He indicated that a proposal for construction of the interconnecting water main has been received in the amount of $55,845. He stated the initial commodity charge for water supplied to Petitioner will be $1.30 per thousand gallons with future increases at the same percentage rate as may be applied to the single base rate of NCT.

Mr. Baugher indicated that while the projected cost of water will increase as a result of securing this enhanced source of water supply, projected typical water bills appear to represent a reasonable cost to customers in a utility the size of Petitioner. He testified that Petitioner's contractor is prepared to effect the connection over a period of just a few days upon the receipt of construction financing proceeds. Mr. Baugher explained that Petitioner's current water production facilities will be retired upon completion of the Project. The cessation of water production will essentially eliminate all electrical energy cost now associated with pumping from the wells, as well as maintenance costs on the wells and associated equipment.

Mr. Baugher also explained Petitioner has five existing commercial customers, all of which have been historically served by the utility without metering. The Petitioner has estimated the usage for each of the unmetered commercial customers and applied the usage to its tariff rates to calculate billings. He noted Petitioner plans to install metering to eliminate all unmetered accounts within six months of the Commission's Order in this Cause.

6. **Settlement Agreement and Supporting Evidence.** On October 16, 2013, Wedgewood and the OUCC filed their Settlement Agreement. The Settlement Agreement addressed all of the areas of Petitioner's requested relief in this Cause. The Settlement Agreement was admitted into the evidentiary record as Joint Exhibit 1.

A. **Settlement Agreement.**

(1) **Petitioner's Rate Increase.** The Parties presented evidence on and agreed to the specific components of Petitioner's rates and charges. The agreements of the Parties regarding Petitioner's rates and charges are summarized as follows:

a. **Rate Base.** The Parties agreed that Petitioner's original cost rate base, inclusive of the proposed Project and less related retirements, is $173,163. The Parties further agreed that the fair value of Petitioner's utility property is not less than $173,163.

b. **Return on Rate Base.** The Parties agreed that Petitioner's weighted cost of capital is 7.34%. The Parties further agreed that Petitioner will be allowed a 7.34% rate of return on the $173,163 fair value of its utility property and, therefore Petitioner's authorized return is $12,710.

c. **Petitioner's Test Year Operating Revenue.** The Parties agreed that Petitioner's adjusted test year operating revenue at present rates is $69,111.

d. **Petitioner's Revenue Requirement.** The Parties agreed that Petitioner's adjusted *pro forma* revenue requirement is $92,549.

e. **Petitioner's Authorized Rates.** The Parties agreed that, upon certification that Petitioner's proposed Project is in-service, Petitioner shall be authorized to increase its rates and charges for water service, across the board, so as to produce annual revenues of $92,549, an increase of $23,438 over annual adjusted present rate revenues of $69,111.

f. **Implementation of Rate Increase.** The Parties agreed that Petitioner will certify that the proposed Project is in service, and the OUCC may verify same, prior to implementing the proposed rate increase.

(2) **Petitioner's Borrowing Authority.** The Parties agreed that Petitioner is authorized to engage in long-term borrowing, and to execute documents related thereto, not to exceed $96,000 in principal amount for the purpose of funding: the construction of Petitioner's water supply interconnection with NCT water utility; the connection charge; the engineering fees; financial advisory fees; legal fees; and bank fees and charges. The Parties also agreed that Petitioner is authorized to encumber its utility franchise, works and system in connection with the authorized borrowing, and to execute documents related thereto. The Parties further agreed that Petitioner will be issued a certificate of authority to issue the long-term debt as agreed herein. The Commission order in this Cause will be the sole evidence of Petitioner's certificate.

(3) **Petitioner's Accounting Treatment Authorization.** The Parties agreed that Petitioner is authorized to amortize the balance of its CIAC at the Commission's composite rate of 1.7% for a water utility without a treatment plant.

B. **Evidence Supporting Settlement Agreement.** The OUCC offered the testimony and exhibits of Charles E. Patrick and the testimony of Larry W. McIntosh, Utility Analysts for the Water/Wastewater Division of the OUCC, in support of the Settlement Agreement.

(1) **Mr. Patrick's Testimony.** Mr. Patrick testified that Petitioner requests Commission approval to increase its rates by 33.9%. Additionally, Petitioner requests approval of long-term debt with 1stSource Bank to finance the construction of its wholesale connection to NCT. Petitioner also requests approval of the amortization of CIAC.

Mr. Patrick explained how the settled revenue requirement differed from Petitioner's proposed revenue requirement. Petitioner's projected revenue requirement is based on Petitioner's obtaining a $96,000 long-term loan for seven years from 1stSource Bank to pay its connection to NCT and related engineering, financial advisory and legal fees, along with bank fees and charges. Petitioner also requests projected additional costs for purchased water, operator costs, billing costs and property taxes. Additionally, Petitioner reduced operation and maintenance expenses for purchased power, materials and supplies, legal fees, contractual services, non-recurring expenses, transportation expenses, insurance expenses, bad debts expense, depreciation expense and utility receipts tax.

Mr. Patrick prepared a table to show the differences between Petitioner's proposed revenue requirement and the settled revenue requirement:

Table CEP-1: *Pro Forma* Net Revenue Requirements

	Per Petitioner	Per Settlement	Settlement More (Less)
Original Cost Rate Base	$ 172,055	$ 173,163	$ 1,108
Times: Weighted Cost of Capital	7.51%	7.34%	7.34%
Return on Rate Base	12,921	12,710	(211)
Less: Adjusted Net Operating Income	(10,152)	(10,041)	111
Net Revenue Requirement	23,073	22,751	(322)
Gross Revenue Conversion Factor	101.5569%	103.01970%	1.4628%
Recommended Revenue Increase	$ 23,432	$ 23,438	$ 6
Recommended Percentage Increase	33.9%	33.9%	0.0%

Mr. Patrick explained the components of Petitioner's rate base and the calculations used to determine Petitioner's rate base. He explained the elements of the proposed Project which would be included in rate base and the retirements of Petitioner's water production facilities. Mr. Patrick explained that the Parties calculated Petitioner's net original cost rate to be $173,163, as detailed in OUCC Schedule 6.

Mr. Patrick also explained the calculation of a gross revenue conversion factor for Petitioner. He explained the Parties agreed on the use of a bad debt rate of 1.42% and utility receipts tax of 1.3801% in the calculation. Since Petitioner is an S Corporation, no federal or state income taxes were included in the calculation. Mr. Patrick testified the resulting gross revenue conversion factor for Petitioner is 103.0197%.

Mr. Patrick described the calculation of Petitioner's weighted cost of capital. He explained the Parties agreed upon the use of a 10.55% cost of equity and a 5.50% cost of debt which resulted in a weighted average cost of capital for Petitioner of 7.34%. The detail of this calculation is set forth in OUCC Schedule 7.

Mr. Patrick stated the Parties accepted the calculation of operating revenues proposed by Petitioner.

Mr. Patrick explained the calculation of Petitioner's operation and maintenance expenses, all of which are detailed in OUCC Schedule 5. The Parties agreed on Petitioner's adjustments for: increased purchased water costs; the removal of purchased power costs; increased operator costs; increased billing costs; reduction in materials and supplies; the reduction in legal fees; the reduction of other contract services; the reduction of transportation expense; the reduction of insurance expense; the reduction of bad debt expense; and a reduction in IURC fees. Mr. Patrick further explained the Parties agreed on minor adjustments to contract testing and postage expense.

Mr. Patrick explained the calculation of depreciation expense for Petitioner. He explained the calculation which adds the new Project to and removes the retired water production assets from UPIS. Mr. Patrick also describes the capitalization of certain assets. He explained that these calculations resulted in a depreciation expense for Petitioner of $3,871.

Mr. Patrick also explained the Parties agreed to remove $3,636 of CIAC related to the retirement of water producing assets. Mr. Patrick further explained the Parties agreed to amortize petitioner's remaining CIAC balance at the 1.70% composite rate.

Mr. Patrick described the calculation of Petitioner's taxes other than income taxes. He explained the Parties agreed to a reduction in utility receipts tax. The Parties agreed on the capitalization of items and their inclusion in UPIS. As a result of that agreement, the Parties agreed on the calculation of property taxes. The Parties then agreed, after adjusting UPIS for property tax purposes, to an increase of $1,458 to *pro forma* property tax expense. These adjustments are set forth in OUCC Schedule 4 and Schedule 5, Adj. 16 and 17.

Mr. Patrick stated that the Parties agreed Petitioner's working capital amount would be $6,213. He explained the working capital was calculated by taking $69,111 of operation and maintenance expense less the $19,408 of purchased water cost times the 45 day factor of 0.125.

Mr. Patrick addressed the proposed loan amortization schedule. He explained the Parties agreed to accept the amortization schedule as presented by Mr. Callahan. He explained the Parties agreed to accept the seven (7) year amortization of the $96,000 loan, which Petitioner will get from First Source Bank, Niles, Michigan to fund the cost of $56,000 to install the transmission line and meter pit. The Parties also agreed that this loan will be used to pay for the $11,000 connection charge and to pay for engineering, financial advisory and legal fees, along with some bank fees and charges. Further, the Parties agreed that any funds received from the disposal of water producing assets removed from UPIS will be applied to reduce the principal amount borrowed.

Mr. Patrick summarized the Settlement Agreement. He indicated that Petitioner's existing basic rates and charges shall increase 33.9% beginning after it has connected to Niles Charter Township. Petitioner is authorized to borrow up to $96,000 from First Source Bank with a repayment schedule of seven years. Petitioner is authorized to amortize the balance of its CIAC at the Commission's composite rate of 1.7% for a water utility without a treatment plant.

Mr. Patrick recommended the Commission approve the Settlement Agreement in its entirety. He indicated that through approval of the Settlement Agreement, Petitioner will receive an opportunity to earn revenues sufficient to meet its revenue requirements, including the payment of debt service necessary to accomplish the connection to the NCT water utility. Mr. Patrick stated ratepayers will receive numerous benefits from improved water quality and water pressure. The Settlement Agreement provides bargained-for benefits that are important to each of the Parties while balancing each party's interests and promoting public convenience and necessity.

(2) **Mr. McIntosh's Testimony.** Mr. McIntosh offered a description of the Project. He stated the Project would address the iron and pressure issues which occurred with Petitioner's water production system. He noted that he had reviewed the water supply contract between NCT and Wedgewood and that he had no issues with the contract. Mr. McIntosh also

testified that he reviewed the proposal to construct the Project from Selge Construction Co., Inc. and the amount of $55,845 is reasonable for a project of this type.

Mr. McIntosh testified that Petitioner's proposal to abandon its wells and connect to NCT is in the public interest. He stated the Project will provide a stable, reliable and quality water supply to Petitioner's customers. NCT will provide a constant static water pressure eliminating the reduction in system pressure during peak usage. This will address the customers demand and provide adequate flows for distribution system flushing. NCT has an emergency water service connection with the City of Niles, Michigan, which should insure Petitioner's customers will have a stable reliable supply of potable water. The NCT water supply has an average iron content of 0.205 milligrams per liter as compared to Petitioner's 1.10 milligrams per liter iron content. The Project addresses several of the issues Petitioner has experienced in the past several years that have been a concern in prior Causes before the Commission. In conclusion, Mr. McIntosh recommended the Commission approve Petitioner's financing request.

7. **Commission Discussion and Findings.** Settlements presented to the Commission are not ordinary contracts between private parties. *United States Gypsum, Inc. v. Indiana 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 Coalition v. PSI Energy*, 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 Coalition*, 664 N.E.2d at 406.

Furthermore, any Commission decision, ruling, or order - including the approval of a settlement - must be supported by specific findings of fact and sufficient evidence, *United States Gypsum,* 735 N.E. 2d at 795 (citing *Citizens Action Coalition v. Public Service Co.*, 582 N. E. 2d 330, 331 (Ind. 1991)). The Commission's own procedural rules require that settlements be supported by probative evidence. 170 IAC 1-1.1-17(d). Therefore, before the Commission can approve the Settlement Agreement, we must determine whether the evidence in this Cause sufficiently supports the conclusions 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.

The evidence of record indicates that the Settlement Agreement is the result of arms-length negotiation between Petitioner and the OUCC. The terms of the Settlement Agreement are supported by the evidence and represent a reasonable resolution of the issues presented to the Commission. Accordingly, we conclude that the Settlement Agreement is reasonable, just and consistent with the purpose of Ind. Code ch. 8-1-2 and serves the public interest.

We have reviewed the terms of the parties' Settlement Agreement and hereby approve them. A copy of the Settlement Agreement is attached hereto and made a part of this Order. The parties agree that the Settlement Agreement should not be used as precedent in any other proceeding or for any other purpose, except to the extent necessary to implement or enforce its terms. Consequently, with regard to future citation of the Settlement Agreement, we find that our approval herein should be construed in a manner consistent with our finding in *Richmond Power & Light*, Cause No. 40434, (*Ind. Util. Reg. Comm'n*, March 19, 1997).

Consistent with the terms of the Settlement Agreement approved herein, the Commission specifically finds:

A. **Petitioner's Rate Increase.**

(1) **Rate Base.** The Commission finds that Petitioner's net original cost rate base, inclusive of Petitioner's proposed water supply interconnection with Niles Charter Township project and less related retirements, is $173,163 and is calculated as follows:

Utility Plant in Service at 12/31/12	$ 247,498
Add: Transmission Line	102,000
Capitalized Expenditures	1,242
Less: Retired Utility Plant in Service	114,425
Gross Utility Plant in Service	236,315
Less: Accumulated Depreciation	64,928
Contributions in Aid of Construction	4,437
Net Utility Plant in Service	166,950
Add: Working Capital	6,213
Total Original Cost Rate Base	$ 173,163

The Commission further finds that the fair value of Petitioner's utility property is not less than $173,163.

(2) **Return on Rate Base.** The Commission finds Petitioner's weighted cost of capital is 7.34% and is calculated as follows:

	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	$ 55,203	36.51%	10.55%	3.85%
Long-Term Debt	96,000	63.49%	5.50%	3.49%
Total	$ 151,203	100.00%		7.34%

The Commission further finds that Petitioner is allowed a 7.34% rate of return on the $173,163 fair value of its utility property, and therefore Petitioner's authorized return is $12,710.

(3) **Petitioner's Test Year Operating Revenue.** The Commission finds that Petitioner's adjusted test year operating revenue at present rates is $69,111.

(4) **Petitioner's Revenue Requirement.** The Commission finds that Petitioner's adjusted *pro forma* revenue requirement is $92,549, and is calculated as follows:[1]

[1] We note that the settlement schedules contained an error in the working capital calculation, which resulted in an immaterial difference of $10 between OUCC Schedule 1 and OUCC Schedule 4, Proposed Net Operating Income. We also note that OUCC Schedule 5, Adjustment 17 should have been adjusted to reduce Taxable Revenues for *pro forma* Bad Debt Expense. Both errors resulted in immaterial adjustments, and therefore were not included herein.

Operation and Maintenance Expenses	$	70,335
Depreciation Expense		3,871
Taxes Other Than Income		5,633
Income Taxes		0
Return on Rate Base		12,710
Total Revenue Requirements	$	92,549

(5) **Petitioner's Authorized Rates.** The Commission finds that Petitioner's current rates and charges which provide annual adjusted revenues of $69,111 are insufficient to satisfy Petitioner's annual *pro forma* revenue requirement of $92,549, and Petitioner's current rates are, therefore, unjust and unreasonable. The Commission further finds that Petitioner, upon certification that Petitioner's proposed Project is in-service, should be authorized to increase its rates and charges for water service, across-the-board, so as to produce annual revenues of $92,549, which is an increase of $23,438, over annual present rate revenues of $69,111.

(6) **Implementation of Rate Increase.** The Commission finds that Petitioner's authorized rates, as approved herein, will be implemented as follows:

Petitioner shall file a verified certification with the Commission within 10 days of the date the Project is in service and becomes used and useful. Petitioner shall also serve such certification upon the OUCC. After Petitioner's filing of its verified certification stating the Project is in service, the OUCC may make a verified filing with the Commission either confirming the Project is in service or stating the Project is not in service. If the OUCC confirms the Project is in service or makes no filing within 14 days of Petitioner's certification, Petitioner's new rates will be implemented. If the OUCC makes a verified filing stating the Project is not in service, within 14 days of the filing of Petitioner's certification, the Commission will promptly set a hearing on the issue of whether the Project is in service. However, if the Parties agree in writing to resolve the matter, they may submit their agreed resolution to the Commission for its approval without further hearing.

B. Petitioner's Borrowing Authority. The Commission finds that Petitioner should be authorized to engage in long-term borrowing, and to execute documents related thereto, not to exceed $96,000 in principal amount for the purpose of funding: the construction of Petitioner's water supply interconnection with Niles Charter Township water utility; the connection charge; engineering fees; financial advisory fees; legal fees; and bank fees and charges. The Commission also finds that Petitioner should be authorized to encumber its utility franchise, works and system in conjunction with the authorized borrowing, and to execute documents related thereto. Finally, the Commission finds that Petitioner's certificate of authority to issue the long-term debt is authorized herein.

C. Petitioner's Accounting Treatment Authorization. The Commission finds that Petitioner should be authorized to amortize the balance of its CIAC at the Commission's composite rate of 1.7% for a water utility without a treatment plant.

8. Effect of Rate Increase. Based on the rate increase approved herein, a customer using 5,000 gallons per month would experience a monthly increase of $7.89, which results in a monthly bill of $31.11. The monthly minimum bill for a customer with a 5/8 inch or 3/4 inch meter (which is 600 cubic feet or approximately 4,490 gallons) would increase by $7.08 per month, resulting in a monthly bill of $27.96.

9. **Engineering Recommendations.** Although not addressed in the Settlement Agreement, OUCC Witness McIntosh recommended that Petitioner report to the Commission and the OUCC the completion of its connection to NCT, stating the connection has been accomplished. Mr. McIntosh also recommended the report identify what equipment included in Petitioner's rate base is no longer in service.

At the evidentiary hearing in this Cause, Petitioner agreed to Mr. McIntosh's recommendation. The Commission finds Mr. McIntosh's recommendation is reasonable and should be approved. We note that Finding Paragraph 7. A. (6) requires Petitioner to certify that its Project is in service as a condition to implementing the rates approved herein. Petitioner may comply with Mr. McIntosh's recommendation by including in its in-service certification the equipment status requested by Mr. McIntosh.

10. **Alternative Regulatory Program.** If Petitioner elects to participate in the Commission's Alternative Regulatory Program in accordance with procedures approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied are $50,927. This amount excludes $19,408 approved for purchased water. Taxes Other Than Income of $5,633 are also eligible expenses to which the Annual Cost Index will be applied. All other components of Petitioner's revenue requirement will remain unchanged.

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

1. The Settlement Agreement, attached to this Order as Attachment A, is approved in its entirety.

2. Petitioner, upon certification that its proposed water supply Project is in service, shall be authorized to increase its rates and charges for water service, across-the-board, so as to produce annual revenues of $92,549, which is an increase of $23,438, over annual adjusted present rate revenues of $69,111 in accordance with Finding Paragraph 7. A. herein.

3. Petitioner shall be authorized to engage in long-term borrowing, and to execute documents related thereto, not to exceed $96,000 in principal amount for funding the construction of Petitioner's water supply interconnection with Niles Charter Township water utility, the connection charge engineering fees financial advisory fees, legal fees, and bank fees and charges.

4. Petitioner shall be authorized to encumber its utility franchise, works and system in conjunction with the authorized borrowing and to execute documents related thereto.

5. Petitioner shall be issued a Certificate of Authority to issue long-term debt as approved herein. This Order shall be the sole evidence of Petitioner's certificate.

6. Petitioner shall be authorized to amortize the balance of its Contributions in Aid of Construction at the Commission's composite rate of 1.7%.

7. Petitioner shall file with the Commission's Water/Sewer Division a new schedule of rates and charges for approval before placing into effect the rate increase authorized herein.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: NOV 06 2013

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

Brenda Howe

Brenda Howe
Secretary to the Commission

STATE O F INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF WEDGEWOOD PARK WATER, INC., FOR APPROVAL OF (1) THE ISSUANCE OF LONG-TERM BONDS, NOTES OR OTHER EVIDENCE OF INDEBTEDNESS, (2) FOR AUTHORITY TO ENCUMBER ITS FRANCHISE, WORKS AND SYSTEM IN CONNECTION WITH SUCH BORROWING, (3) FOR A CERTIFICATE OF TERRITORIAL AUTHORITY TO ISSUE LONG TERM DEBT, (4) FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR WATER SERVICE, (5) FOR APPROVAL OF A NEW SCHEDULE OF RATES AND CHARGES FOR WATER SERVICE, AND (6) FOR APPROVAL OF CERTAIN UTILITY ACCOUNTING PROCEDURES.	)	CAUSE NO. 44369

STIPULATION AND SETTLEMENT AGREEMENT

Wedgewood Park Water, Inc. ("Petitioner") and the Indiana Office of Utility Consumer Counselor ("OUCC"), being all of the parties to this Cause (collectively called the "Parties"), Stipulate and Agree for the purposes of resolving the issues in this Cause to the terms and conditions set forth below (which terms and conditions are collectively referred to herein as the "Settlement").

A. Petitioner's Rate Increase.

1. Rate Base. The Parties stipulate and agree that Petitioner's original cost rate base, inclusive of Petitioner's proposed water supply interconnection with Niles Charter Township project (the "Project") and less related retirements, is $ 173,163 and is calculated as follows:

Utility Plant in Service at 12/31/12		$	247,498
Add:	Project		102,000
	Capitalized Expenditures		1,242
Less:	Retired Utility Plant in Service		114,425
Gross Utility Plant in Service		$	236,315
Less:	Accumulated Depreciation		64,928

Contributions in Aid of Construction		4,437
Net Utility Plant in Service	$	166,950
Add: Working Capital		6,213
Total Original Cost Rate Base	$	173,163

The Parties further stipulate and agree that the fair value of Petitioner's utility property is not less than $ 173,163.

2. Return on Rate Base. The Parties stipulate and agree Petitioner's weighted cost of capital is 7.34%, and is calculated as follows:

	Amount	Percent of Total	Cost	Weighted Cost
Common Equity	$ 55,203	36.51%	10.55%	3.85%
Long-Term Debt	96,000	63.49%	5.50%	3.49%
Total	$ 151,203	100.00%		7.34%

The Parties further stipulate and agree that Petitioner is allowed a 7.34% rate of return on the $ 173,163 fair value of its utility property, therefore Petitioner's authorized return is $12,710.

3. Petitioner's Test Year Operating Revenue. The Parties stipulate and agree that Petitioner's adjusted test year operating revenue at present rates is $69,111.

4. Petitioner's Revenue Requirement. The Parties stipulate and agree that Petitioner's adjusted pro forma revenue requirement is $92,549, and is calculated as follows:

Operation and Maintenance Expenses	$	70,335
Depreciation Expense		3,871
Taxes Other Than Income		5,633
Income Taxes		0
Return on Rate Base		12,710

Total Revenue Requirements	$ 92,549

5. Petitioner's Authorized Rates. The Parties stipulate and agree that Petitioner's current rates and charges which provide annual adjusted revenues of $69,111 are insufficient to satisfy Petitioner's annual pro forma revenue requirement of $92,549, and Petitioner's current rates are, therefore, unjust and unreasonable. The Parties further stipulate and agree that , upon certification that Petitioner's proposed Project is in-service, Petitioner shall be authorized to increase its rates and charges for water service, across-the-board, so as to produce annual revenues of $92,549, which is an increase of $23,438, over annual adjusted present rate revenues of $69,111.

6. Implementation of Rate Increase. The Parties stipulate and agree that Petitioner's authorized rates, as agreed and stipulated herein, will be implemented as follows:

When Petitioner's proposed Project is in service and used and useful, Petitioner, or its Engineer, will file a verified certification with the Commission, and serve such certification upon the OUCC, stating the Project is in service.

After Petitioner's filing of its verified certification stating the Project is in service, the OUCC may make a verified filing with the Commission either confirming the Project is in service or stating the Project is not in service. If the OUCC confirms the Project is in service or makes no filing within fourteen (14) days of Petitioner's certification, Petitioner's new rates will be effective upon filing and approval of Petitioner's new tariff. If the OUCC makes a verified filing stating the Project is not in service, within fourteen (14) days of the filing of Petitioner's certification, the Commission will promptly set a hearing in this Cause on the issue of whether the Project is in service. However, the Parties may agree in writing to resolve the matter without further hearing, if so, the Parties may submit their agreed resolution to the Commission for its approval.

B. Petitioner's Borrowing Authority.

The Parties stipulate and agree that Petitioner shall be authorized to engage in long term borrowing, and to execute documents related thereto, not to exceed $96,000 in principal amount for the purpose of funding: the construction of Petitioner's water supply interconnection with Niles Charter Township water utility; the connection charge; engineering fees; financial advisory fees; legal fees; and bank fees and charges. The Parties further stipulate and agree that Petitioner shall be authorized to encumber its utility franchise, works and system in conjunction with the authorized borrowing, and to execute documents related thereto. Finally, the Parties stipulate and agree that Petitioner shall be issued a certificate of authority to issue the long term debt as agreed herein. The Commission order in this Cause will be the sole evidence of Petitioner's certificate.

C. Petitioner's Accounting Treatment Authorization.

The Parties stipulate and agree that Petitioner is authorized to amortize the balance of its Contributions in Aid of Construction at the Commission's composite rate of 1.7% for a water utility without a treatment plant.

D. The Settlement and Use of the Settlement.

1. The Settlement. The Parties shall support this Settlement before the Commission and request that the Commission expeditiously accept and approve the Settlement. If the Settlement is not approved by the Commission without amendment, the Parties agree that the terms thereof shall not be admissible in evidence or in any way discussed in any proceeding. Further, the concurrence of the Parties with the terms of the Settlement is expressly predicated upon the Commission's approval of the Settlement without amendment. If the Commission alters the Settlement in any material way or imposes any additional obligations on Petitioner, the Settlement shall be deemed withdrawn unless that alteration is unanimously consented to by the Parties in writing. In that event, an informed attorneys' conference will be promptly requested wherein a procedural schedule will be fixed for the processing of the balance of this Cause. The Parties expressly reserve all of their rights, including the right to present appropriate evidence, in the event this Cause is required to be litigated.

The Petitioner has prefiled its direct testimony and the OUCC has prefiled testimony in support of this Settlement, all of which shall be offered into evidence without objection and the Parties hereby waive cross-examination. The Parties agree that Petitioner's evidence and the evidence in support of this Settlement constitutes substantial evidence to support this Settlement and provides and adequate evidentiary basis upon which the Commission can make any findings of fact or conclusions of law necessary for the approval of this Settlement, as filed. The Parties shall prepare and file an agreed proposed order with the Commission as soon as possible, but not later than the October 24, 2013, hearing in this Cause.

2. Use of the Settlement. If the Settlement is approved by the Commission, the Parties agree that the terms of the Settlement are intended to represent a resolution by compromise of the issues in this Cause. The Parties further agree that the provisions of the Settlement may never be deemed an admission made by any of the Parties, may never be used as substantive precedent in future Commission proceedings and may never be used against any of the Parties in subsequent regulatory or other Commission proceedings, except to the extent necessary to enforce the Settlement.

The Parties stipulate and agree that the Settlement is solely the result of compromise in the settlement process and, except as provided herein, is without prejudice to and shall not constitute a waiver of any position that either of the Parties may take with respect to any issue or item whether or not resolved herein, in any future regulatory or other proceeding.

E. Authority to Execute.

The undersigned have represented and agreed that they are fully authorized to execute this Stipulation and Settlement Agreement on behalf of the designated Parties who will be bound thereby.

Wedgewood Park Water, Inc.

Date: 10-16-2013

By: Dennis Jusko

Office of Utility Consumer Counselor

Date: 10/16/13

By: DM LeVay

Daniel M. LeVay
Deputy Consumer Counselor