

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF B & B WATER PROJECT, ) CAUSE NO. 44755 U  
INC. FOR A NEW SCHEDULE OF RATES )  
AND CHARGES FOR WATER SERVICE ) APPROVED: OCT 13 2016

ORDER OF THE COMMISSION

**Presiding Officers:**

**Angela Rapp Weber, Commissioner**

**Loraine L. Seyfried, Chief Administrative Law Judge**

On February 24, 2016, B&B Water Project, Inc. ("Petitioner" or "B&B Water") filed with the Indiana Utility Regulatory Commission ("Commission") a Small Utility Rate Application ("Application") under Ind. Code § 8-1-2-61.5 and 170 IAC 14-1 for an increase in water rates. On April 13, 2016, B&B filed a copy of the proof of publication concerning the filing of its Application. On April 19, 2016, the Commission's Water and Wastewater Division issued a Memorandum stating that the Application was deemed complete.

On July 18, 2016, as required by 170 IAC 14-1-4(a), the Indiana Office of Utility Consumer Counselor ("OUCC") filed its report. B&B Water did not file any response to the OUCC's report.

Under Ind. Code § 8-1-2-61.5, a formal public hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least ten customers, a public or municipal corporation, or by the OUCC. On March 4, 2016 and March 18, 2016, the Commission received requests for a public hearing by separate individuals. However, no further requests for a public hearing were received. Accordingly, no public hearing was held.

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

**1. Commission Jurisdiction and Notice.** B&B Water is a public utility as defined in Ind. Code § 8-1-2-1(a) and qualifies for treatment as a small utility under Ind. Code § 8-1-2-61.5. B&B Water published legal notice of the filing of 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. Further, the Commission finds the Application satisfies all of the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. Therefore, the Commission has jurisdiction over Petitioner and the subject matter of this proceeding, and may issue an Order in this Cause based upon the information filed as provided by 170 IAC 14-1-6.

**2. Petitioner's Characteristics.** B&B Water is a not-for-profit public utility that provides water utility service to approximately 1,890 residential customers in Benton and Bloomington Townships in Monroe County, Indiana. B&B Water purchases all of its water from the City of Bloomington. Petitioner's service infrastructure consists of three storage facilities

with a total capacity of 400,000 gallons, two 350 gallon-per-minute pumping stations, and approximately 73 miles of PVC mains. Petitioner contracts with Rural Water LLC to operate its system and with Bynum Fanyo & Associates, Inc. (“Bynum Fanyo”) to provide engineering services.

3. **Test Period.** The test period selected for determining revenues and expenses reasonably incurred in providing water utility services to customers is the 12 months ending December 31, 2015. With adjustments for changes that are fixed, known, and measurable, the Commission finds that this test period is sufficiently representative of normal operations to provide reliable data for ratemaking purposes.

4. **Background and Relief Requested.** The Commission approved B&B Water’s current base rates and charges in its May 21, 1991 Order in Cause No. 39107. In its Application, B&B Water requests a 23.98% across-the-board rate increase to generate an additional \$133,358 in annual revenues for higher operating expenses and necessary capital improvements.

5. **OUCC Report.** The OUCC’s report was prepared by Charles E. Patrick and Carl N. Seals. In its report, the OUCC recommended a slightly lower across-the-board rate increase of 23.66% for an additional \$131,914 in annual revenues. The reduction in the proposed rate increase is primarily due to recommended adjustments to the utility’s additional operating revenue and operation and maintenance (“O&M”) expense.

Additionally, the OUCC’s report addressed issues related to B&B Water’s outstanding debt, water loss issues, and certain deficiencies relating to the Indiana Department of Environmental Management’s (“IDEM”) Sanitary Survey and Senate Enrolled Act 347 (“SEA 347”).

6. **Commission Discussion and Findings.**

A. **Rates and Revenue Requirement.** Under Ind. Code § 8-1-2-125, rates for a not-for-profit utility are calculated by first determining the amount of the pro forma net operating expenses based on the utility’s current rates. The pro forma 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. In addition to operating expenses, applicable amounts for taxes, debt service, debt service reserve, extensions and replacements, and working capital are included to determine the utility’s total revenue requirements. The total revenue requirements are then reduced by any interest income, penalties, or other earned income to determine the utility’s net revenue requirements. The net revenue requirements are then reduced by the pro forma revenues at current rates to determine the required net revenue increase. The required increase in net revenue is then adjusted to include the additional IURC fee that will be due on the increased revenues.

The table below provides a comparison of the parties’ proposed revenue requirements.

<u>Revenue Requirements</u>	<u>Petitioner</u>	<u>OUCC</u>	<u>Variance</u>
<b>O&amp;M Expense</b>	\$ 610,321	\$ 611,178	\$ 857
Plus: Taxes Other Than Income	—	—	—
Debt Service	23,664	23,664	—
Debt Service Reserve	—	—	—
Extensions and Replacements	58,300	58,300	—
Working Capital	—	—	—
<b>Total Revenue Requirements</b>	\$ 692,285	\$ 693,142	\$ 857
Less: Interest Income	—	824	824
<b>Net Revenue Requirements</b>	\$ 692,285	\$ 692,318	\$ 33
Less: Other Income Not Subject to Increase	\$ 3,018	\$ 3,018	—
Late Payment Charges	—	—	—
Pro Forma Present Rate Operating Revenues	\$ 556,073	\$ 557,528	\$ 1,455
<b>Revenue Increase Required Excluding Taxes</b>	\$ 133,194	\$ 131,772	\$ (1,422)
Multiply by: Gross Revenue Conversion Factor	1.00122	1.00117	0.00005
<b>Net Revenue Increase Required</b>	\$ 133,356	\$ 131,914	\$ (1,442)
<b>Recommended Percentage Increase</b>	23.98%	23.66%	(0.32)%

Based on the evidence presented as discussed further below, we find the OUCC's proposed revenue requirements and recommended rate increase is reasonable and in the public interest.

**B. Outstanding Debt and Debt Service.** The OUCC noted that in July 2012, B&B Water obtained a \$250,000 loan from Old National Bank with a maturity date of July 2017 without obtaining Commission approval. The debt was used to fund installation of a new pump station, telemetry system, and variable speed pumps. The OUCC recommended the Commission approve the remaining balance on the loan of approximately \$200,000 and related debt service of \$23,644.

Based on the evidence presented, we approve the remaining balance on the Old National Bank loan. We note that B&B Water has indicated an intent to renew its current Old National Bank loan under the same terms. However, should B&B Water seek to extend its current debt or secure additional long-term debt, B&B Water must seek Commission approval prior to entering into such transaction in accordance with Ind. Code § 8-1-2-79.

**C. Extensions and Replacements.** The OUCC agreed with B&B Water's proposed annual allowance of \$58,300 for extensions and replacements. Mr. Patrick noted that although B&B Water does not currently have a capital plan, it is working with Bynum Fanyo to map its system and develop a plan for replacement of mains, extensions, valves, and hydrants. These activities should assist with reducing Petitioner's high water loss percentage. In addition, B&B Water has made substantial capital improvements over the past five years, averaging \$92,260 per year. Therefore, we approve Petitioner's proposed allowance for extensions and replacements.

D. **Revenue Adjustment.** The OUCC recommended that B&B Water's proposed residential customer growth adjustment be further increased based on five new customers having been added since the end of the test year. This adjustment results in increasing operating revenues by an additional \$1,455, for a total pro forma residential water normalization adjustment of \$2,619. Based on the evidence presented, we approve of this adjustment.

E. **Interest Income.** The OUCC noted that B&B Water did not include its interest income as an offset to its revenue requirement. Accordingly, the OUCC recommended that \$824 of interest income be reflected as an offset to revenues. This adjustment is consistent with standard ratemaking practices and is approved.

F. **O&M Expense.** The OUCC agreed with B&B Water's proposed adjustments, except for the following.

1. **Purchased Water, Purchased Power, and Postage.** Consistent with its recommended revenue adjustment for increased residential customer growth, the OUCC also recommended that the expenses impacted by that adjustment also be increased. The OUCC recommended an increase of \$1,295 for purchased water expense, \$79 for purchased power expense, and \$53 for postage expense.

2. **Insurance Expense.** The OUCC recommended an increase of \$238 to insurance expense to account for the increased of the renewed insurance premiums.

3. **IURC Fee Expense.** The OUCC recommended the correct IURC Fee rate of 0.00107782 for fiscal year 2016-2017 be used, resulting in an increase of \$31 for the IURC Fee expense.

Based on the evidence presented, we find these adjustments are appropriate and approved.

G. **Water Loss.** The OUCC noted that Petitioner's lost water percentage has continued to increase over the past few years from 24% in 2013 to approximately 43% in 2015. However, the OUCC also recognized that B&B Water has initiated several measures in an attempt to locate and correct its high lost water percentage. Those measures include: hiring M.E. Simpson to locate leaks; improving its system mapping; working with the Indiana Rural Community Assistance Program to conduct a water loss audit; installing temporary master meter locations; replacing an underground pumping station on Hinkle Road; and installing variable speed drives at its lift stations. The OUCC indicated that B&B Water is proactively attempting to address its water loss issue and recommended that it continue to employ cost-effective solutions.

We share the OUCC's concern with B&B Water's high water loss because such loss negatively impacts ratepayers through increased purchased water expense without the corresponding revenue generation to cover such costs. However, as the OUCC indicated, B&B Water is taking steps that essentially constitute a water loss control program, including leak detection efforts, metering isolated lengths of the distribution system, planning meter replacements and improving its understanding of the distribution system inventory. Because

these activities have only been partially implemented, we will continue to monitor Petitioner's efforts through its annual report and encourage Petitioner to continue efforts to improve its lost water percentage.

**H. IDEM Sanitary Survey and SEA 347.** The OUCC noted that IDEM's July 2015 Sanitary Survey identified deficiencies relating to Petitioner's water loss, site sampling plan, and certain facilities. The OUCC recommended that Petitioner address the deficiencies and provide to the Commission and the OUCC a copy of the compliance documentation sent to IDEM. Because we fully expect that Petitioner will work with IDEM to address the identified deficiencies, we do not see any need for additional reporting of compliance with another agency's requirements.

The OUCC also recommended that B&B Water comply with the requirements of SEA 347 to conduct a water audit in accordance with the American Water Works Association Manual of Water Supply Practices M-36 and conduct an analysis of the utility's infrastructure needs by completing the Indiana Finance Authority's questionnaire. Similarly, SEA 347 are independent legal requirements with which B&B Water must comply and we fully expect it will come into compliance as expeditiously as possible. In addition, because B&B Water is a public utility and responsible for providing reasonable service, we encourage it to explore and use available utility management resources, such as those referred to by the OUCC's report.

**I. Customer Comments.** The OUCC's report also included several customer comments expressing concern with the proposed rate increase and the quality of water. While we recognize the concern for the amount of the rate increase as expressed by some of Petitioner's customers, it has been almost 25 years since the utility's rates were last adjusted and the evidence presented supports the need for the additional revenue as recommended by the OUCC. In addition, as noted by the OUCC, B&B Water has limited control over the quality of water supplied by the City of Bloomington. However, both utilities have increased system flushing in an attempt to address the elevated presence of disinfectant byproducts recently detected in the water and we fully expect that the utilities will continue to cooperate with each other to address the issue.

7. **Effect on Rates.** A residential customer using 5,000 gallons per month would experience an increase of \$11.28 per month from \$47.68 to \$58.96.

8. **Alternative Regulatory Program ("ARP").** If B&B Water elects to participate in the Small Utility ARP Program in accordance with procedures approved in Cause No. 44203, the eligible operating expenses to which the Annual Cost Index will be applied are \$338,640. This amount excludes \$272,680 approved for purchased water. Extensions and replacements of \$58,300 is also an eligible expense 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. B&B Water is authorized to increase its rates and charges by \$131,914 or 23.66% so as to produce net annual revenues of \$692,318.

2. B&B Water's existing balance on its loan with Old National Bank that matures on July 17, 2017, is approved.

3. Prior to implementing the rates authorized herein, B&B Water shall file the applicable rate schedules under this Cause for approval by the Commission's Water and Wastewater Division.

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

**STEPHAN, FREEMAN, HUSTON, AND ZIEGNER CONCUR; WEBER ABSENT:**

**APPROVED:**            **OCT 13 2016**

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

  
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**Mary M. Becerra**  
**Secretary of the Commission**