

Memorandum

To: Chairman Huston

From: E. Curtis Gassert, Water/Wastewater Division Director

Date: December 18, 2023

Re: Summary Results of Periodic Review for Calendar Year 2022

Indiana Code § 8-1-2-42.5 requires the Commission to conduct a review of the basic rates and charges of all public, municipally owned, and cooperatively owned utilities. Utilities serving less than 8,000 customers are exempt from such a review as described in Indiana Code § 8-1-2-61.5.

Additionally, Indiana Code § 8-1-2-16 requires that a utility's accounting books and records be closed on the last day of December with the balance sheet and other information prescribed by the Commission filed on or before April 30 of the following calendar year. The Commission's administrative rules (170 IAC) prescribe the accounting and reporting requirements adopted by the Commission for each industry.

The Commission's Water/Wastewater Division conducted the periodic review as described in the Commission's GAO 2018-01 ("GAO"). Part of this process is a Level 1 review, and if necessary, further review is conducted in Level 2. The Water/Wastewater Division Staff analyzes the rate of return experienced by the utilities and what the utilities have been authorized to earn through Commission Orders for the investor-owned utilities. For the municipal and not-for-profit utilities, the actual operating revenue is compared to the authorized operating revenues. The primary threshold for a Level 1 review, depending on the utility type, is if the actual return (i.e., investor-owned utilities) or actual operating revenue (i.e., municipally-owned, not-for-profit, and cooperatively-owned) exceeds authorized return or authorized revenue by 10% or more.

Data contained in the utility's annual report was utilized by the Water/Wastewater Division to conduct a periodic review for the following water utilities:

1. Anderson Water Utility
2. Bloomington Water Utility
3. Citizens Water
4. Citizens Water of Westfield¹
5. Columbus Municipal Water
6. Elkhart Municipal Water
7. Evansville Municipal Waterworks
8. Fort Wayne Water Utility
9. Lafayette Municipal Water Works
10. Marion Municipal Utilities

¹ Citizens Water of Westfield cannot be evaluated because it has not had a general rate case since Citizens Energy Group acquired the water assets from the City of Westfield in 2013 in CN 44273.

11. Michigan City Department of Waterworks
12. Schererville Municipal Water
13. South Bend Water Works

The following water utility exceeded the Level 1 threshold as prescribed in the GAO and was subject to a Level 2 review:

1. Lafayette Municipal Water Works

Lafayette Municipal Water Works (“Lafayette”) had excess authorized revenue of 11.68% which exceeded the Level 1 threshold of 10.00% based on staff’s comparison of authorized revenues of \$10,705,541 in Cause No. 45006 (5/16/2018).² The actual revenues from the 2022 Annual Report were \$11,995,721.

Staff conducted a Level 2 review, which includes the collection of data and information beyond that contained in the utility’s most recent annual report. For ratemaking, municipal utilities revenues are established to be sufficient enough to pay operating expenses, depreciation expense or extensions and replacements (“E&R”), debt service, and working capital.

On page F-6 of its Annual Report, Lafayette reported it only spent \$244,834 on E&R, well below its authorized amount of \$1,816,234. Staff contacted Lafayette to determine the source of this amount. Lafayette indicated that \$244,834 is the portion of its authorized E&R which needed to be in a restricted account. Staff reviewed the plant additions reflected by the difference between the Utility Plant in Service from 2021 to 2022 and considered contributed plant. This amount is substantially higher than the E&R approved in Lafayette’s last rate case, Cause No. 45009. Therefore, to be conservative, staff entered the E&R from CN 45009. If Lafayette had spent only its authorized amount, the utility would have excess authorized revenues of 4.56% as shown below, which is below the 10% threshold.

² Adjusted downward to reflect the repeal of the Utility Receipts Tax implemented in 30-day filing 50514.

Line No.		Per Calendar Year for This Report (using authorized E&R)	Last Approved Rate Case
	OPERATING SECTION		
1	Operating Revenues	\$ 11,955,721	\$ 11,049,511
	REVENUE REQUIREMENTS		
2	Operating Expenses <i>(include taxes, not depreciation)</i>	8,302,916	6,803,094
3	Debt Service	1,341,457	1,359,377
4	Debt Service Reserve		
5	Extensions and Replacements	1,816,234	1,816,234
6	Working Capital		169,933
7	Less: Interest Income	50,580	
8	Total Revenue Requirements <i>(Lines 2 through 7)</i>	11,410,027	\$ 10,148,638
9	Excess or (Deficit) Revenues <i>(Line 1 less Line 8)</i>	\$ 545,694	
10	Percent of Excess or (Deficit) <i>(Line 9 divided by Line 1)</i>	4.56%	

Data contained in the Annual Reports was utilized by the Water/Wastewater Division Staff to conduct a periodic review of the following wastewater utilities:

1. CWA Authority
2. Citizens Wastewater of Westfield

The following wastewater utility exceeded the Level 1 thresholds as prescribed in the GAO and was subject to a Level 2 review:

1. Citizens Wastewater of Westfield

Last year's Memo included the table below for 2018, 2019, 2020, and 2021 which reflects excess earnings in multiple years. Based on data reported in 2022, Citizens Wastewater of Westfield continues to be far above the 10% threshold as shown below.

Description	2018	2019	2020	2021	2022
Utility Plant In Service	\$ 112,657,198	\$129,591,421	\$143,082,838	\$ 159,664,780	\$ 182,079,144
Accumulated Depreciation	30,339,277	33,266,675	36,736,621	40,585,576	44,783,148
Contributions In Aid of Construction	31,989,027	37,571,210	45,935,800	57,180,521	68,987,786
Advances for Construction	2,495,461	4,233,137	6,359,495	7,338,933	10,617,457
Subtotal	47,833,433	54,520,399	54,050,922	54,559,750	57,690,753
Other (Specify):					
Allocated plant, net	539,645	543,816	852,059	937,980	936,613
Pre-2012 plant settlement versus books	(120,692)	(535,366)	(961,366)	(1,387,366)	(1,813,366)
Rate Base	\$ 48,252,386	\$ 54,528,849	\$ 53,941,615	\$ 54,110,364	\$ 56,814,000
Net Operating Income (NOI)	3,988,315	4,199,825	\$4,420,668	\$4,795,284	5,458,137
ACTUAL Rate of Return (ROR) (NOI / Rate Base)	8.27%	7.70%	8.20%	8.86%	9.61%
IURC Authorized Net Operating Income	\$ 3,766,991	\$ 3,766,991	\$ 3,766,991	\$ 3,766,991	\$ 3,766,991
IURC Authorized Rate Base	51,216,900	51,216,900	51,216,900	51,216,900	51,216,900
IURC Authorized ROR	7.35%	7.35%	7.35%	7.35%	7.35%
Difference between Actual and Authorized ROR	0.91%	0.35%	0.84%	1.51%	2.25%
Actual ROR % Over/Under 10% requires Level 2 review	12.38%	4.72%	11.43%	20.49%	30.62%

Commission staff met with Citizens Wastewater of Westfield staff on February 20, 2023. Subsequent to the February 20th meeting, correspondence and additional meetings occurred to develop a resolution to the excess earnings. Eventually, it was agreed that Citizens Wastewater of Westfield would refund \$3.2 million to its customers over two years. This amount includes \$1.3 million of excess return for 2022 and includes amounts from 2018 – 2021 as well. The refund was implemented through a 30-day filing made by Citizens Wastewater of Westfield on November 13, 2023 with a case number of 50691.

Data contained in the utility’s Annual Report provided to the Commission was utilized by the Water/Wastewater Division Staff to conduct a periodic review of the following combined water/wastewater utilities:³

1. Indiana-American Water

No combined water/wastewater utility exceeded the Level 1 thresholds as prescribed in the GAO.

³ Aqua Indiana did not provide annual reports for each of its divisions. Once filed, staff will perform the periodic review.