

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF AMERICAN SUBURBAN UTILITIES,)
INC. FOR (1) AUTHORITY TO INCREASE ITS)
RATES AND CHARGES FOR SEWER UTILITY) CAUSE NO. 44676
SERVICE, (2) APPROVAL OF NEW SCHEDULES OF)
RATES AND CHARGES APPLICABLE THERETO)

PETITION OF AMERICAN SUBURBAN UTILITIES,)
INC., AN INDIANA CORPORATION, FOR)
AUTHORITY TO ENTER INTO A TERM CREDIT)
FACILITY IN AGGREGATE AMOUNT UP \$5,100,000;)
(2) ENCUMBER PETITIONER'S ASSETS AS) CAUSE NO. 44700
SECURITY FOR SUCH LONG-TERM DEBT; AND (3))
AUTHORITY TO USE THE NET PROCEEDS)
THEREFROM TO REIMBURSE ITS TREASURY AND)
FINANCE ITS CONSTRUCTION PROGRAM)

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR'S ("OUCC")
PROPOSED ORDER

The OUCC submits its proposed order with introduction, table of contents, and workpapers.

Introduction to OUCC's Proposed Order

This introduction focuses on two aspects of the OUCC's proposed order. First, it explains generally why the OUCC's proposed process to update Petitioner's rate base in Phase II and III should be used over Petitioner's proposal. Second, it explains some aspects of the OUCC's position with respect to utility plant in service added between Petitioner's last rate case more than fifteen (15) years ago and March 31, 2015.

The OUCC's recommendations should be viewed in light of ASU's practices. First, ASU uses its for profit affiliate, First Time Development, to complete most of its projects. Second, although ASU and First Time are ultimately owned by the same individual, ASU has not presented any evidence in this case of First Time's actual costs incurred to build ASU's plant. Third, ASU's reliance on an affiliate can only serve to discourage potential bidders from incurring the cost of preparing responses to competitive bidding requests even when such bids are solicited.

Under traditional ratemaking, a utility that depends on third parties to construct its plant is not unduly incented to pay more than is reasonably necessary for plant additions or build plant that is not truly needed to serve its customers. While such a utility knows that the more it invests in plant, the larger its return on that investment will be, the utility also knows that when it decides to make an addition and incur costs, it risks having such costs eliminated from rate base if the Commission later determines that what the utility built was unnecessary or unnecessarily expensive. This risk should encourage a utility to not ignore opportunities for reducing project costs. An application for pre-approval under IC § 8-1-2-23 eliminates this risk, and lessens the motivation to look for and act on the opportunity for project cost savings that may later present themselves. The desire to look for project cost savings that will benefit the rate payers may be further diminished when the construction is to be undertaken by an affiliated construction company. The interests of the utility and the affiliated construction company are in conflict. The ability of the OUCC to review project costs that have actually been incurred as opposed to project estimates, and see the affiliate's actual costs mitigate against this conflict. Finally, it is not enough for a utility to pay another engineering firm to produce an estimate as to what an improvement should cost. The OUCC fears that such professionals will tend to err on the side of overestimating project costs.

Phase II and III Process

Petitioner has inaccurately characterized the OUCC's position -- indicating in its proposed order that the OUCC opposes excess expenditures being included in rate base in Phase II and Phase III.¹ In fact, the OUCC's proposed mechanism for Phase II and Phase III would permit into rate base the excess expenditures up to the amount Petitioner has proposed (\$1.5 million for CEP III standby Phosphorus removal and \$966,000 for Klondike Road). Under the OUCC's proposed mechanism, such inclusion would be subject to the OUCC's agreement, or in the absence of such agreement the Commission's determination, that those excess expenditures were actually incurred by ASU, that the plant is in service, and that the expenditures were reasonable and prudently incurred. (Public's Exhibit No. 1, pp. 52-57.)

The issue is really whether the OUCC and any other consumer parties should be permitted the opportunity to identify unnecessary or imprudent expenditures that have actually been incurred before they become a part of ASU's rate base. Another way to view the issue is whether ASU should be permitted to turn this rate case, expedited by IC 8-1-2-42.7, into another preapproval case. For the first time in the rebuttal testimony of Mr. Skomp, Petitioner declared this base rate case is also a preapproval case. Mr. Skomp said "ASU is essentially seeking pre-

¹ Petitioner states "the OUCC proposed to limit the amounts for rate base inclusion to the amounts preapproved in Cause No. 44272. Petitioner's proposed order, p. 51

approval of additional investment beyond what has already been preapproved.” (Skomp rebuttal, p. 35.)

There are independent reasons the Commission should reject ASU’s request for preapproval of the excess expenditures. First, that relief is inconsistent with the settlement agreements approved in Cause No. 44272. By agreement in that cause, ASU received preapproval on some but not all of the expenditures it sought. In exchange, ASU acknowledged and agreed that “to the extent actual expenditures exceed the agreed amount . . . [ASU] will have the burden to demonstrate the amounts were reasonable and were prudently incurred.” (emphasis added.) Because the excess expenditures are not actual, ASU has not and cannot make that demonstration. Any preapproval of those excess expenditures should be denied.

Second, the modest amount of due process the OUCC’s proposed process provides is reasonable. Allowing the OUCC to explore the reasonableness and prudence of the actual expenditures more appropriately balances the ability of ASU to add rate base after the close of evidence in this case with the consumer parties’ interest in reviewing actual expenditures. ASU will still be able to update its rate base with excess expenditures on projects completed after the Commission has issued its order. The consumer parties will have the opportunity to verify or dispute if necessary whether the actual excess expenditures should be considered reasonable or prudently incurred. Moreover, nothing in IC 8-1-2-42.7 prohibits such a process. Thus, the Commission may reject Petitioner’s request for additional preapproval without resorting to enforcement of the settlement agreements as a basis.

There is a third reason ASU’s request for preapproval of the excess expenditures should be disallowed. ASU did not identify such relief as part of its request in its case-in-chief or in its petition. Although ASU listed section 23 in its petition among several other Indiana statutes that ASU considered applicable, it did not announce this was really a preapproval case until Mr. Skomp’s rebuttal testimony mentioned that it was. (Skomp rebuttal, p. 35) The lack of support establishing how ASU arrived at its proposed excess costs of its standby chemical phosphorus removal system, which presumably will be constructed by ASU’s affiliate, underscores the inappropriateness of making this base rate case a preapproval case.

Petitioner asserted the OUCC’s mechanism is not consistent with IC § 8-1-2-42.7. In his rebuttal testimony, Mr. Skomp suggested that the OUCC’s approach is inconsistent with section 42.7. He argued that “If plant must already be in service to be included, there is no method to review a forward looking or hybrid test period in phase.” The Commission has already rejected this assertion in Cause No. 44450. In its pre-hearing conference order in that cause, the Commission qualified its determination that a use of a projected rate base was appropriate in that case. The Commission qualified its determination by explaining that IC § 8-1-2-6 requires that utility plant must be actually used and useful and devoted to providing utility service and that the

plant's utilization must be reasonably necessary to the provision of utility service. (citing *Citizens Action Coalition of Ind., Inc.*, 894 N.E.2d at 1064.) (Cause No. 44450, PHC Order, March 19, 2014, pp. 2-3.) The Commission added that “Nothing in section 42.7 can be read to explicitly or implicitly alter this fundamental understanding of the used and useful standard.” *Id.* The Commission then asked the parties to suggest mechanisms to phase-in rates. Whether plant is in service and is used and useful is a matter of fact, and properly and logically the subject of evidence. Thus, the Commission has already considered that there must be some subsequent evidentiary basis in which to add rate base projected under section 42.7. Petitioner’s assertion that the OUCC’s proposed process is contrary to section 42.7 should be rejected.

Rate Base Additions as of March 31, 2015

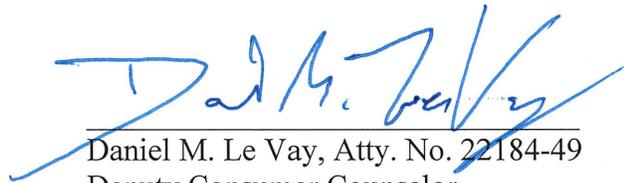
In its case, the OUCC did not accept the amount of plant in service Petitioner claimed to have added since its last rate case. The evidence shows that the OUCC asked for a list of the assets added since the last rate case, their cost, and their in service dates as well as related invoices. Petitioner responded it did not maintain that information and objected stating that compiling such information would be unduly burdensome. Instead, the response invited Mr. Patrick to look through ASU’s books and records and find the information himself during the OUCC’s onsite audit. The record reflects Mr. Patrick did not attempt to put together ASU’s asset list or compile the invoices collected over 15 years. Indeed, that is a project for the petitioner of a rate case. In its rebuttal case, Petitioner asserted the OUCC should have asked a different question to receive the information it required. The record also reflects that then the OUCC asked again for invoices but for projects of at least \$250,000. ASU was not able to provide all the invoices within the time allotted for discovery in this case producing them through no less than five supplemental responses, and only after a Commission docket entry asked for similar information. In its case-in-chief, Petitioner did little more to support its UPIS added since its last rate case than to state a dollar amount, yet Petitioner claims to have made a *prima facie* case and shifted the burden of proof to the OUCC.

In response to the Commission’s docket entry and in response to discovery by the OUCC, which responses the Petitioner put into the record at the hearing, Petitioner produced various invoices and other documents suggesting support for approximately \$13 million of plant added as of March 31, 2015. These included invoices for a Cadillac Escalade and many work in progress invoices showing proof of payment to First Time Development and little else. Without approving of the way Petitioner presented the information, the OUCC agrees in its proposed order that some, but not all, of the invoices provided should result in UPIS being added to Petitioner’s rate base for ratemaking purposes. These include unaffiliated third party invoices with some few exceptions described in the proposed order. The OUCC maintains that significant amounts of the others should continue to be disallowed - in particular, those work-in-progress

invoices from First Time to ASU which provide no meaningful detail to establish the reasonableness of the payment.

But allowing some but not all of the rate base addition amounts leaves the OUCC in a quandary. In its case, the OUCC did not offset the rate base with accumulated depreciation and CIAC that would presumably be associated with the UPIS amounts that the OUCC excluded. Since the OUCC is now agreeing in its proposed order that some of the UPIS amounts it had excluded should now be included, it was necessary to consider what amount of accumulated depreciation and CIAC should be used to offset the value of such rate base additions. Unfortunately, the evidence presented in this case does not offer an answer. Accordingly, the OUCC has proposed in its order that no amount of accumulated depreciation or CIAC that might be related to the rate base additions be included as a rate base offset. In the OUCC's opinion, this results in a higher rate base than Petitioner's quality of proof should permit. Should the Commission disagree with the OUCC's exclusion of such rate base, the accumulated depreciation and CIAC should be applied as an offset.

Respectfully submitted,



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ORDER OF THE COMMISSION

Presiding Officers:

Angela Rapp Weber, Commissioner

David E. Veleta, Administrative Law Judge

On September 4, 2015, American Suburban Utilities, Inc. ("Petitioner," "ASU" or "Company") filed its *Petition and Submission of Case-in-Chief under Ind. Code § 8-1-2-42.7 and Notice of Intent to File Information Required Under Minimum Standard Filing Requirements and Motion Requesting Administrative Notice* ("Petition") with the Indiana Utility Regulatory Commission ("Commission") in Cause No. 44676, seeking authority to increase its rates and charges for sewer utility service and for approval of new schedules of rates and charges applicable thereto. ASU filed testimony and exhibits from the following witnesses:

Edward J. Serowka, President of Lakeland InnovaTech

John R. Skomp, Partner with Crowe Horwath LLP

John F. Thieme, Partner with Thieme & Adair CPAs, PC

On October 30, 2015, ASU filed its Petition in Cause No. 44700 requesting authority to enter into a term credit facility in aggregate amount up to \$5,100,000 and other related relief. In support of its Petition, ASU filed testimony and exhibits from John R. Skomp.

A Petition to Intervene in Cause No. 44676 was filed on November 6, 2015, by Tippecanoe County Citizens Against Rate Increase (“TC-CARI” or “Intervenors”). The Commission issued a Docket Entry on December 8, 2015 granting said petition to intervene and making TC-CARI a party to this Cause.

On January 13, 2016, the Indiana Office of Utility Consumer Counselor (“OUCC”) filed its prefiled testimony in Cause No. 44676, consisting of testimony and exhibits from the following witnesses:

Charles E. Patrick, Utility Analyst

James T. Parks, Utility Analyst II

Edward R. Kaufman, Chief Technical Advisor

On January 20, 2016, the Commission issued a Docket Entry consolidating Cause Nos. 44676 and 44700. ASU filed its rebuttal in Cause No. 44676 on February 5, 2016. The OUCC filed testimony of Edward R. Kaufman in Cause No. 44700 on February 11, 2016 and ASU filed its rebuttal in that Cause on February 24, 2016. No testimony was filed by TC-CARI in either Cause No. 44676 or 44700.

As provided for in 170 IAC 1-1.1-15, the Commission held a Prehearing Conference in Cause No. 44676 at 9:30 a.m. on October 5, 2015, and in Cause No. 44700 at 9:30 a.m. on December 15, 2015, in Hearing Room 224, PNC Center, 101 West Washington Street, Indianapolis, Indiana. Notices of the Prehearing Conferences were given and published as required by law. Proofs of publication of the notices have been incorporated into the record and placed in the official files of the Commission. Petitioner and the OUCC appeared and participated at the Prehearing Conferences. No members of the general public appeared or sought to participate. Petitioner and the OUCC presented their positions with respect to Petitioner’s proposed test period at the October 5 Prehearing Conference for Cause No. 44676.

The procedural, scheduling and other matters determined at the Prehearing Conferences were memorialized in the Commission’s Prehearing Conference Orders approved and issued on November 18, 2015 and December 27, 2015 for Cause No. 44676 and Cause No. 44700, respectively.

Pursuant to Ind. Code § 8-1-2-61(b), a public field hearing was conducted on November 16, 2015 at 6:00 p.m. at the Wm. Henry Harrison High School Auditorium, in the City of West Lafayette. During this public field hearing, members of the public provided oral and/or written testimony in Cause No. 44676.

Pursuant to notice published as required by law, a public Evidentiary Hearing was held in consolidated Cause Nos. 44676/44700 on March 15, 2016, at 9:30 a.m., EDT, in Judicial Courtroom 222 of the PNC Center, 101 West Washington, Street, Indianapolis, Indiana. Proofs of publication of the notice of such hearing were incorporated into the record of this proceeding by reference. During the Evidentiary Hearing, evidence constituting ASU’s case-in-chief and rebuttal was offered and admitted into the record and its witnesses were offered for cross-examination. In addition, evidence constituting the case-in-chief of the OUCC was offered and

admitted into the record and their witnesses were offered for cross-examination. In addition, we received into evidence Petitioner's and OUCC's responses to various Commission Docket Entry Questions and Petitioner's responses to Commission questions asked during the hearing. We also received into evidence cross-examination and redirect exhibits offered during the hearing.

The Commission took administrative notice of the following: (1) the Commission's Order dated April 14, 1999 in Cause No. 41254 (Petitioner's Administrative Notice Ex. No. 1); (2) ASU's Response dated February 24, 2014 to Commission's Docket Entry dated February 20, 2014 in Cause No. 44272 (Petitioner's Administrative Notice Ex. No. 2); (3) the Commission's Order dated April 9, 2014 in Cause No. 44272 (Petitioner's Administrative Notice Ex. No. 3); and (4) the Commission's Order dated July 22, 2015 in Cause No. 44593 (Petitioner's Administrative Notice Ex. No. 4).

Having considered all of the evidence presented in this proceeding, based on the applicable law and being duly advised in the premises, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the Petition filed in Cause No. 44676 was given and published by Petitioner as required by law. Proper and timely notice was given by Petitioner to its customers summarizing the nature and extent of the proposed changes in its rates and charges for wastewater service. Due, legal and timely notices of the Prehearing Conferences and the other public hearings in this Cause were given and published as required by law. Petitioner is a "public utility" within the meaning of that term in Ind. Code § 8-1-2-1(a)(3) and is subject to the jurisdiction of the Commission in the manner and to the extent provided by the laws of the State of Indiana. Accordingly, this Commission has jurisdiction over Petitioner and the subject matter of this proceeding.
2. **Petitioner's Characteristics.** Petitioner is a public utility incorporated under the laws of the State of Indiana and is engaged in the provision of wastewater utility service in unincorporated areas in Tippecanoe County, Indiana. Until the sale which we approved in Cause No. 44592, Petitioner also provided water service. Petitioner renders such sewer utility service to a population of approximately 12,000 people connected to Carriage Estates Treatment Plant and approximately 2,000 people connected to its County Home Plant.
3. **Existing Rates.** Petitioner's existing basic rates and charges for wastewater utility service were established pursuant to the Commission's Order dated April 14, 1999, in Cause No. 41254 ("41254 Order"); the second and final step of the rates authorized therein were placed in effect on August 15, 2000. Petitioner's current system development charge was established pursuant to the Commission's Order dated July 22, 2015 in Cause No. 44593.
4. **Relief Requested.** Petitioner proposed that its rates be increased in three steps so as to produce additional revenues of \$2,155,153, or a 73.56% increase. Petitioner's Ex. No. JRS-1, p. 23; Petitioner's Ex. No. 6, Attachment A1A, pp. 11 and 19. This was based upon Petitioner's proposal filed under the *Best Practices* set forth in Appendix B to the Commission's GAO 2013-5 (July 3, 2013) ("*Best Practices*"), which proposed implementing the proposed rate increase in three steps. The first step would be calculated from the twelve months of operations ending March 31, 2015, as adjusted, with rate base updated to include Petitioner's Big 3 Sewer Project (discussed below) and accumulated depreciation, amortization of CIAC, revenues from customer

growth, and capital structure through the approximate date of the Order. The second step of the increase would be implemented on or about January 1, 2017, to reflect the Klondike Road major project (discussed below), the addition of chemical phosphorus removal equipment and the Carriage Estates Wastewater Treatment Plant-III (“CETP-III”) Stage 1 major projects (discussed below), actual capital structure, actual customer count, actual accumulated depreciation and amortization of CIAC and additional return, depreciation expenses, and taxes. The third step would be implemented on or about July 1, 2018 and would update for the same components described above, and would also reflect the CETP-III Stage 2 major project in rate base. *See* Petitioner’s Exhibit No. 2, p. 8.

5. Test Year. Petitioner proposed a hybrid test period using historic data for the 12-month period ending March 31, 2015, and further historic and projected data through June 30, 2018, as authorized by Ind. Code § 8-1-2-42.7(d)(1). At the Prehearing Conference held in Cause No. 44676, the OUCC opposed Petitioner’s proposed test period, contending Petitioner’s proposed hybrid test year would extend beyond what Ind. Code § 8-1-2-42.7 (“Section 42.7”) authorized for a forward looking test year and was therefore inconsistent with that statute.. In the Prehearing Conference Order for Cause No. 44676 issued November 18, 2015, we held:

In this case, the four major projects that Petitioner proposed to implement through phased in rates were the subject of the Commission’s Order in *American Suburban Utilities*, Cause No. 44272, 2014 WL 1477992 (IURC Apr. 9, 2014) (“44272 Order”). The 44272 Order granted preapproval to all four major projects. Thus, the preapproval provides unique circumstances which help alleviate some of our concerns with having such a long test period and make the use of a hybrid test period that is greater than 12 months appropriate in this case. Furthermore, by using a hybrid test period Petitioner would avoid incurring the additional expense of filing an additional rate case to capture the preapproved major projects occurring further out in the future.

44676 Prehearing Conference Order, p. 2.

As provided in the Prehearing Conference Order, the test year to be used for determining Petitioner’s projected operating revenues, expenses and operating income shall be the 12-month period ending March 31, 2015, and further historic and projected data through June 30, 2018. This is the first case filed under Section 42.7 utilizing a hybrid test period.

6. Projects Preapproved in Cause No. 44272. Petitioner proposed to implement its proposed rate increase in steps to capture four major projects that received preapproval of expenditures in Cause No. 44272: (1) the Big 3 Sewer Project, (2) the Klondike Road Project, and (3) Stages I and (4) II of the Carriage Estates Plant refurbishment and expansion (“CETP-III”). Petitioner’s Exhibit No. 1, p. 7. In Cause No. 44272, the Commission granted preapproval of portions of these major projects, approving settlements reached between Petitioner and the OUCC. Each of the major projects are described in greater detail in our Order in Cause No. 44272, of which we took administrative notice. Petitioner’s Administrative Notice Ex. No. 3.

Updates were described by Mr. Serowka. The amounts preapproved for these four projects, for construction only (inclusive of AFUDC) are:

Project	Amount Preapproved
CETP-III Project (including Stages I and II)	up to \$10,000,000
Klondike Road Project	up to \$725,000
Big 3 Sewer Project	up to \$2,100,000

Petitioner seeks to include in rate base amounts exceeding the preapproved amounts for the Big 3 Sewer Project and the Klondike Road Project, and \$1.5 million for chemical phosphorus removal for CETP-III. With respect to the Big 3 Project, Petitioner proposes to include a total cost of approximately \$3.5 million, which is the amount of ASU affiliate First Time Development Corporation’s (“FTDC” or “First Time”) proposal. The difference between this total cost and the preapproved amount is approximately \$1.4 million, and was attributed by Petitioner to easement acquisition and dewatering costs, both of which were expressly not included in the preapproved \$2,100,000. Petitioner’s Exhibit No. 1, p. 10. For the Klondike Road project, ASU has selected an unaffiliated contractor rather than First Time. ASU seeks to include total costs of \$1,716,100, which is the lowest bid obtained through competitive bidding. *Id.*, p. 13. For CETP-III Stage I and II, ASU seeks to include the \$10,000,000 preapproval amount, plus \$1,500,000 for standby chemical phosphorus removal. *Id.*, p. 21.

Of the project expenditures that were pre-approved, only the Big 3 Project has been completed and placed in service. The costs associated with this project have already been incurred and the expenditures made. Therefore, we will discuss that project first.

A. Big 3 Project Costs

In Cause No. 44272, the Commission approved a settlement agreement authorizing inclusion in rate base of up to \$2.1 million for the Big 3 Sewer Project, a line replacement to eliminate three 40-year old lift stations and a 40 year old 10” sewer. This amount did not include easement acquisition costs or dewatering costs. Petitioner seeks to include in rates \$3,499,226, an amount in excess of the \$2.1 million. On page 10 of Mr. Serowka’s case-in-chief testimony, Mr. Serowka attributed the cost difference to two excluded items: 1) easement acquisition costs and 2) dewatering costs; both of which were exclude from the pre-approval. This Commission also approved the provisions establishing that reasonable costs for dewatering, easement acquisition and other rate base additions will be addressed in the same manner as rate base additions that have not been pre-approved. In other words, Petitioner would have the “burden to demonstrate the excess was reasonable and was prudently incurred.” Stipulation and Settlement Agreement between ASU, Inc. and the OUCC, p. 3. Through the testimony of OUCC’s engineering witness James Parks, the OUCC disagreed with Petitioner’s proposed dewatering costs and easement acquisition.

(1) Dewatering Costs

(a) Evidence on Dewatering Costs

To support its Big 3 dewatering costs, Petitioner provided a document titled “Proposal (or Bid)” prepared by ASU’s affiliate, First Time Development Corporation dated January 13, 2014. The “Total for Proposal (Base Bid)” amount indicated in the document is \$3,499,226. (Attachment EJS-3) This amount is identical to the preliminary cost estimate presented as Exhibit TAB-3 under Cause No. 44272. In this Cause, Petitioner included Exhibit TAB-3 as Attachment EJS-R1. That document included \$1,080,448 for “Dewatering.”

OUCC engineering witness Jim Parks explained that Petitioner seeks to include in rates dewatering costs of approximately \$1.225 million. Noting that Mr. Serowka attributed the increase over the pre-approved amount to easement acquisition costs and dewatering, Mr. Parks arrived at this amount by subtracting from Petitioner’s total for the Big 3 Project the \$2.1 that had been pre-approved and Petitioner’s easement acquisition costs. Since dewatering costs had not been included in the pre-approval in Cause No. 44272, Mr. Parks noted Petitioner has the burden to demonstrate dewatering costs were reasonable and were prudently incurred. Mr. Parks described the support Petitioner provided to support dewatering costs noting Mr. Serowka testified that First Time Development Corporation (“First Time” or “FTDC”) obtained cost estimates from two sources to provide dewatering services, which were included in Attachment EJS-6, pages 1 - 9. He noted those estimates were only for dewatering a 500 feet long sewer segment shown on Plan Sheet C111 and were from Patriot Pumps and Mersino Dewatering, Inc. He added that ASU did not obtain these dewatering proposals until mid July 2014 after construction was underway.

Mr. Parks explained that Mr. Serowka extrapolated certain cost figures in the Mersino and Patriot Pumps proposals to calculate theoretical cost estimates. On page 12 of his case-in-chief testimony, Mr. Serowka explained that the “two cost estimates were divided into a cost per foot and then applied to the total linear feet of required dewatering.” (Attachment EJS-7.) Mr. Serowka asserted that the “Mersino cost estimate would have been \$2,141,967.88 and the Patriot estimate would have been \$1,123,233.91.” Mr. Parks said Mr. Serowka’s methodology for calculating an estimated dewatering cost should not be considered representative of the cost of dewatering the entire project. He explained that ASU received proposals for dewatering based on a line length of only 500 feet, not the entire project of more than 12,000 feet. To receive accurate and valid cost estimates, First Time should have had Patriot Pumps and Mersino make a proposal, bid, or quote for the whole project (12,000 feet), not just 500 feet (1/24th) of the project. Mr. Serowka’s method of extrapolating costs would result in over-estimation of the total dewatering costs. He said it is not appropriate to obtain a cost estimate for less than five percent of the project and assume that cost can be extrapolated to apply for the entire project. Mr. Parks also noted that First Time did not perform the dewatering in the manner proposed by either Patriot Pumps or Mersino. More specifically, First Time did not drill wells, which Patriot Pumps and Mersino Dewatering included in their quotes.

Mr. Parks noted that neither First Time nor ASU used either contractor to perform any dewatering for the Big 3 Sewer Project. (See Attachment JTP-17, Responses to OUCC DR 4.32 and 11-27) Rather, First Time performed the dewatering. And Mr. Parks added there is no evidence that any of the costs Mr. Serowka used in his estimate were actually incurred by First Time. He asserted that unless it has been shown that First Time actually incurred the costs,

Petitioner should not be allowed to include any of these costs in rate base. Mr. Parks noted the OUCC attempted to determine what dewatering costs were actually incurred by First Time but without success. In Data Request No. 4.31, the OUCC asked for documentation of actual costs. The OUCC asked Petitioner for documentation about the number and size of pumps used and the hours they were being operated:

Please provide documentation, including costs supporting FTDC's dewatering operation, which shows how many pumps were used for dewatering, the size of each pump, how each pump was powered (electric, gas, or diesel) and the total operation hours for each pump.

Petitioner provided the following response:

No actual records were maintained concerning the dewatering equipment because this was an ongoing operation for the entire project with various size and type of pumps being utilized. Photos depicting the dewatering operation are attached.

Mr. Parks said it was not reasonable for First Time or Petitioner to not maintain records of the actual costs for dewatering would have incurred labor costs, fuel costs, electrical costs, and rental equipment costs. He stated each of these costs would have generated a receipt for payment, invoice, payment of wages, or other documentation of the cost paid or incurred by First Time. He said that without this documentation, First Time's actual dewatering costs cannot be verified by the OUCC or Commission for consideration in this case.

Mr. Parks noted Petitioner failed to document any of the actual cost of dewatering incurred by First Time. He concluded Petitioner should not be allowed to include in rate base the additional \$1.2 million dollars over the amount pre-approved. Mr. Parks noted the Stipulation and Settlement Agreement between the OUCC and ASU reached in Cause No. 44272 stated that "in order to include the excess in rate base for ratemaking purposes, Petitioner will have the burden to demonstrate the excess was reasonable and was prudently incurred." *Id.* p. 3. He noted Petitioner has not even demonstrated the "actual costs" or "excess" was actually incurred by First Time, let alone whether such costs were reasonable or prudently incurred. Therefore, he recommended no cost for dewatering be included in rate base. Mr. Parks recommend the Commission exclude Petitioner's excess expenditures for dewatering and unsupported easement acquisition costs. Mr. Parks recommended expenditures associated with the Big 3 Sewer Project be included in rate base in an amount not to exceed \$2,198,046.

In ASU's rebuttal case, Mr. Serowka clarified that the amount First Time seeks to include in dewatering is \$1,080,448. Mr. Serowka provided photos of the Big 3 Sewer Project construction, which he said showed several of the areas requiring dewatering. Petitioner's Exhibit No. 1R, Attachment EJS-R3. Mr. Serowka acknowledged that detailed records were not kept by First Time or ASU to determine the actual costs First Time incurred for dewatering; rather, when wet conditions were encountered, laborers used the pumps on the job site and addressed the dewatering needs as they arose. Electric power and fuel to run the pumps were not separately recorded from the use of power and fuel for other portions of the construction. *Id.*, p.

12. Mr. Serwoka asserted the First Time bid amount, however, is less than the quotes provided by Mersino and Patriot. *Id.*, pp. 11-12.

(b) Commission Discussion and Finding on Dewatering Costs

In the stipulation and settlement agreement related to the Big 3 project approved in Cause No. 44272, ASU acknowledged it had the burden to demonstrate expenses, in excess of what was preapproved, were reasonable and prudent. Petitioner seeks to include in rate base Big 3 project costs in excess of the \$2.1 million that was preapproved. Petitioner asks to include in rate base Big 3 project costs of \$3,499,226, which is the amount charged by First Time, Petitioner's affiliate, for the project. That amount was based on an estimate prepared by a Mr. Beyer in Cause No. 44272 and attached to Petitioner's rebuttal case as EJS-ER1. In ASU's case-in-chief, Mr. Serowka attributed the cost difference to two items, which had been excluded from preapproval. These were easement acquisition costs and dewatering costs, the latter of which Mr. Serowka explained was the \$1,080,448 estimate presented by Mr. Beyer in Cause No. 44272.

ASU had the burden in this case to demonstrate its \$1.08 million dewatering costs were reasonable and prudently incurred. Mr. Serowka discussed dewatering costs on page 8, and pages 10 – 15 of his case-in-chief testimony. See also hearing transcript pp. A-39 – A49.

It is undisputed that ASU agreed to engage its affiliate to complete the Big 3 project on January 13, 2014 relying on the \$1.08 million estimate for dewatering cost prepared by Mr. Beyer and presented in Cause No. 44272. In our April 9, 2014 order in Cause No. 44272, the Commission recited Mr. Beyer testimony in which he said it is possible dewatering costs could be reduced once ASU performed a subsurface investigation of the project to better determine whether and how much dewatering might be necessary. There is no evidence such investigation occurred. Nearly eight months before the Commission's order and nearly five months *before* ASU agreed to pay its affiliate First Time \$1.08 million for dewatering costs, Patriot Engineering provided a Report of Geotechnical Engineering Investigation. That report states that "groundwater was encountered during drilling of one (1) of ten (10) borings." P. 8 of 32. More importantly, in bold letters it noted that "**The true static groundwater level can only be determined through observations made in cased holes over a long period of time, the installation of which was beyond the scope of this investigation.**" *Id.* (underlined emphasis added.)

Again, there is nothing in the record establishing an investigation was conducted to determine groundwater level. As such, the level of dewatering required for the Big 3 project could only have been established in hindsight by ASU and its affiliate First Time Development Company, who in advance of any such knowledge ASU agreed would receive \$1 million for dewatering on the Big 3 project. The cost of dewatering for a line project varies greatly depending on soil conditions and other factors. The record does not reveal the soil conditions encountered or other facts that would justify the \$1 million ASU paid its affiliate First Time.

The OUCC conducted discovery asking ASU to provide documentation that included cost support for the dewatering operation by First Time. The OUCC asked for information that would show how many pumps were used for dewatering, the size of each pump, how each pump

was powered (electric, gas, or diesel) and the total operation hours for each pump. Petitioner could provide none of that and instead merely provided copies of photos that showed dewatering. Petitioner explained that no actual records were maintained concerning the dewatering equipment. Petitioner has provided no evidence of the level or amount of dewatering required to complete the Big 3 Project. The pictures Mr. Serowka provided indicate some dewatering occurred on the Big 3 project, but they do not establish a million dollars of reasonable and prudent dewatering costs.

Mr. Serowka did some investigation to produce a cost of lineal foot for dewatering. But any cost per foot has no application or relevance if we do not know the level or extent of dewatering required. In fact, we must consider Mr. Serowka's methodology for determining a cost per foot of project to be significantly flawed. After the Big 3 project was underway, he contacted two companies that provide dewatering service to procure a quote on only 500 feet of main extension. From the two quotes procured, Mr. Serowka extrapolated a cost. On page 12 of his testimony, Mr. Serowka explained that the "two cost estimates were divided into a cost per foot and then applied to the total linear feet of required dewatering." (Attachment EJS-7.) Thus, Mr. Serowka used a quote for 500 feet to establish a cost for more than 12,000 feet. Mr. Serowka stated that the "Mersino cost estimate would have been \$2,141,967.88 and the Patriot estimate would have been \$1,123,233.91."

We agree with the OUCC that Mr. Serowka's methodology for calculating an estimated dewatering cost should not be considered representative of the cost of dewatering the entire project. The OUCC suggested Petitioner should have procured a proposal, bid, or quote for the whole project (12,000 feet), not just 500 feet (1/24th) of the project. We also agree Mr. Serowka's method of extrapolating costs would result in over-estimation of the total dewatering costs. We also note that First Time did not perform dewatering in the manner proposed by either Patriot Pumps or Mersino. More specifically, First Time did not drill wells, which Patriot Pumps and Mersino Dewatering included in their quotes. Petitioner's reliance on those two quotes to support \$1 million in dewatering costs is misplaced and unsupported. The evidence does not show that level of dewatering should have been anticipated or actually occurred. The dewatering methods used by First Time were not comparable with the services to be provided in the quotes. Accordingly, those per lineal foot estimates must be disregarded.

Petitioner's own witness in Cause No. 44272, Mr. Beyer, said the possible dewatering costs he estimated "could be *reduced* once ASU has performed a subsurface investigation of the project to better determine whether and how much dewatering might be necessary." Order, p. Despite the opinion, ASU committed to pay First Time \$1.08 million without that subsurface investigation. In Cause No. 44272, ASU acknowledged its burden to demonstrate expenditures in excess of the preapproved amounts were prudently incurred. Despite that obligation, Petitioner has been unable, if not unwilling, to provide evidence or otherwise document its own affiliate's costs to dewater for the Big 3 Project.

We find it was imprudent for ASU to commit to pay \$1.08 million for dewatering without performing the sub-surface investigation its own expert indicated could result in a reduction of that cost. We further are unable to determine that the \$1.08 million paid to First Time was reasonable under the circumstances as we have been provided no meaningful evidence of the extent of the dewatering services provided. We find Petitioner has not met its burden to

demonstrate the \$1.08 million of excess expenditure was reasonable and prudently incurred.

The pictures Mr. Serowka provided indicate some level of dewatering occurred for the Big 3 Project. As such, we look to Attachment EJS-3, the engineer's opinion of construction cost from HWC, which included a dewatering allowance of \$100,000. (We note that opinion also acknowledged dewatering costs can vary greatly due to actual subsurface conditions encountered during construction and suggested a "detailed geo-technical report with dewatering recommendations as the contractor plans and prepares for the construction." Attachment EJS-3, Page 8 of 9.) In its proposed order, the OUCC proposed the \$100,000 dewatering allowance be used as the basis for dewatering cost in rate base. We concur and so find.

(2) Easement Acquisition Costs

(a) Evidence on Easement Acquisition Costs

We next address the other cause of excess expenditures associated with the Big 3 Project, Petitioner's easement acquisition costs. Mr. Serowka testified an additional \$173,691 related to easement acquisition. Mr. Serowka included in his testimony Attachment EJS-4 which provided a breakdown of the costs associated with each easement acquired, approximately twelve (12). The spreadsheet indicated Petitioner paid the following costs associated with each easement, including: (1) permanent easement costs, (2) temporary easement costs, (3) appraisal costs, (4) final settlement costs, (5) legal costs, and (6) miscellaneous fees. Mr. Parks noted Petitioner's case-in-chief included no explanation of the "Final Settlement" costs of \$75,645. Mr. Parks acknowledged Petitioner would have incurred costs to obtain an appraisal, incurred legal costs, incurred miscellaneous fees, paid for a temporary easement and paid for the permanent easement. However, he did not think the "Final Settlement" costs of \$75,645 should be included in rate base since there is no explanation of that cost. He noted that category is in addition to temporary easement costs, permanent easement costs, appraisal costs, legal costs, and miscellaneous fees, all of which are being included in rate base. Mr. Parks said Petitioner should be authorized to include in rate base \$98,046, which is the remainder after subtracting the \$75,645 of final settlement costs (\$173,691- \$75,645). He noted that remainder includes all the temporary easement costs, permanent easement costs, appraisal costs, legal costs, and miscellaneous fees that Petitioner identified.

In his rebuttal testimony, Mr. Serowka revised the Big 3 easement acquisition costs ASU seeks to include in rate base, lowering the amount from \$173,691 to \$148,918.99. Mr. Serowka explained that ASU had erroneously included in the total amounts had been included under the designation "Price Perm." and "Price Temp." Thus, he confirmed the OUCC's suggestion that Big 3 project easement acquisition costs had been overstated. Mr. Serowka explained that such amounts ("Price Perm." and "Price Temp.") were merely appraisals. He submitted a new attachment designated Attachment EJS-2-R, which marked those two categories as "Appraised Values" and did not include those values in the total. He also increased the final settlement costs for easements for parcels 13 and 16. He explained Parcel No. 13 final settlement costs were increased from 13,180 to 28,000 due to a final court ruling. He further noted Parcel 16 final settlement costs should be raised from \$5,025.00 to \$7,537.50 to reflect ten (10) year interest payments of by \$2,512.50. In addition, although not discussed by Mr. Serowka in his rebuttal testimony, we note Parcel No. 18 had not included a final settlement amount on Exhibit EJS-4.

In EJS-2-R Parcel No. 18 included a final settlement amount of \$8,775.00.

(b) Commission Finding on Easement Acquisition Costs

Having reviewed the updated Easement Acquisition costs, we find the amount of Big 3 Easement Acquisition costs that should be included in rate base is \$137,631.49. We accept generally ASU's explanation that the totals for Price Perm. and Price Temp. should be excluded from the totals and not the final settlement proposals as suggested by the OUCC. We also accept ASU's proposal to update the Parcel No. 13 final settlement costs from \$13,180.00 to \$28,000.00 to reflect the final court ruling. But we reject Petitioner's proposal to include \$2,512.50 of ten (10) year interest payments that will be made in the future. ASU should not be permitted to include in rate base investments or payments that have not yet been made. We also we reject the \$8,775.00 indicated for Parcel No. 18 that appeared for the first time without explanation in Petitioner's rebuttal exhibit, as that amount appears to be erroneous. Both Parcel No. 1 and Parcel No. 18 are owned by the Tippecanoe County Commission. The final settlement amount for Parcel No. 1 is \$8,775.00 Final settlement amount, which is consistent with the appraised values. But the appraised values for Parcel No. 18 add up to only \$680. As the \$8,775 was entered into Parcel No. 18 for the first time in Petitioner's rebuttal exhibit, the OUCC questioned Mr. Serowka about this deviation. Mr. Serowka indicated he received the tables from ASU's office staff and had not prepared them himself. Hr. Tr. A-24. It would appear that, since that is the amount for Parcel No. 1, which was paid to the same entity, the final settlement amount for Parcel No. 18 was inserted in error. Subtracting \$8,775 and \$2,512.50 from Petitioner's revised request result of \$148,918.99 results in Big 3 easement acquisition costs of \$137,631.49.

(3) Commission Finding on Big 3 Project Costs

Adding easement acquisition costs of \$137,631.49 and dewatering costs of \$100,000 to the pre-approved amount for the Big 3 project of \$2.1 million results in a total rate base addition of \$2,337,631.49.

B. Klondike Road and CETP - III Project (Stages I and II)

Neither the Klondike Road nor CEPT-III Project have been completed and placed in service. The Rate Base projects to be encompassed in the Phase-ins, the Klondike Road Project and the CETP - III project involve very different factual scenarios and requests. The cost of the Klondike Road project, which Petitioner seeks to include in rates, will exceed by nearly \$1 million (\$966,000) the amount for which pre-approval was given in Cause No. 44272. However, this amount was procured through a through a competitive bidding process. With one exception, the cost of the CETP - III project Petitioner proposes to put into rates through two compliance filings is to be limited to the \$10,000,000 for which pre-approval was given in Cause No. 44272. Petitioner also proposes to put into rate base through its compliance filing the cost of a chemical phosphorus removal system projected to cost \$1.5 million, which amount was not pre-approved in Cause No. 44272. For the purpose of this discussion, we will consider these to comprise three projects: (1) the Klondike Road Project, (2) the planned improvements and additions to the

Carriage Estate Wastewater Treatment Plant, and (3) the chemical phosphorus removal system to be installed at the Carriage Estate Wastewater Treatment Plant.

(1) Klondike Road Project Costs

Expenditures associated with the Klondike Road Project were preapproved in Cause No. 44272 in the amount “up to \$725,000.” (Order Cause No. 44272, p. 16.) In this Cause, Petitioner seeks preapproval of additional investment of \$966,000 for a total project cost of \$1,691,000.

We agree that once the Klondike Road project has been completed, Petitioner may seek to include in rate base an amount not to exceed what it has projected in this Cause of \$1.691 million. Petitioner should certify that the new plant is in service and that the construction costs have been incurred and paid. To that end, Petitioner should provide invoices and other supporting documentation of the costs incurred and paid. Further, since the projected expenditures in the amount of \$1.691 million exceed by \$966,000 the pre-approved amount of \$725,000, Petitioner should also submit proof that such expenditures were reasonable and prudently incurred as contemplated by our final order in Cause No. 44272.

While the Klondike Road project is now expected to be more than twice the cost of the expenditures preapproved in Cause No. 44272, we are mindful that the scope of the project has changed to include a longer expanse of sanitary sewer main. Moreover, we also note that the higher costs were the product of competitive bids received from third parties that are not affiliated with ASU. Finally, we note the OUCC did not express any particular concern with respect to the project as revised. As such, the Klondike Road project presents less opportunity for controversy. While we agree that the OUCC should have a meaningful opportunity to conduct discovery and file evidence in response to whatever proof Petitioner provides, we decline at this time to establish a timeframe within which the OUCC must submit responsive evidence. Rather, we find that the OUCC shall have 30 days after Petitioner’s compliance filing with respect to Klondike Road project in which to declare whether it has any objection to such filing. In the event of such an objection, the commission will convene an attorney conference or pre-hearing conference to establish a procedural schedule. In order to promote resolution, we find that the OUCC may conduct informal discovery in accordance with the procedures set forth in the Commission rules.

(2) CETP - III Project Costs - Stages I and II

Expenditures associated with the Carriage Estates Treatment Plant upgrades were preapproved by the Commission in Cause No. 44272 in the amount of \$10,000,000. Other than the cost of a chemical phosphorous removal system, Petitioner does not seek in this cause to include a return on or return of rate base additions in excess of the \$10,000,000, which has been preapproved. We will address the cost of the chemical phosphorus removal system below as a separate section.

Since Petitioner does not seek to include in rate base more than the \$10,000,000 preapproved by agreement in Cause No. 44272, the proof required to implement the phased-in

rates associated with either step of the Carriage Estates Treatment Plant project should be limited to certification that the new plant is in service and proof that the construction costs have been incurred and paid. To that end, Petitioner should include invoices and other supporting documentation of the costs incurred. Likewise, in combination with the Klondike Road project compliance filing, ASU should also submit (1) updated plant-in-service by asset account incorporating the plant additions, (2) updated annual depreciation expense incorporating the eligible plant additions, (3) updated accumulated depreciation on Petitioner's authorized rate base, (4) revised revenue requirement, and (5) updated tariffs. Since ASU anticipates incurring expenses in excess of that amount, we will address issues related to excess expenditures associated with the Carriage Estates treatment plant costs elsewhere in this order. The excess expenditure associated with the chemical phosphorous removal system we will address immediately below.

(3) Standby Chemical Phosphorous Removal Costs

In Cause No. 44272, the Commission preapproved expenditures for improvements to the Carriage Estates Treatment Plant of \$10,000,000 approving a settlement agreement reached between ASU and the OUCC, which further stipulated that amount did not include costs for removal of phosphorous in compliance with IDEM requirements. In addition to the \$10,000,000 pre-approved expenditures for the CE-III Project, Petitioner proposes to include in its phased-in increases expenditures in the amount of \$1.5 million for phosphorus removal (Phase 2). (ASU Petition, p.8.) The stipulation on the CE-III Project pre-approval also provided that "In order to include the excess expenditures in rate base for ratemaking purposes, Petitioner will have the burden to demonstrate its expenditures were reasonable and were prudently incurred." The stipulation on the CETP-III Project pre-approval also provided that "to the extent actual construction costs are greater than the preapproved amount, it will be Petitioner's burden to show that the amount charged by its affiliate is fair and reasonable and comparable to what an unaffiliated entity would have charged." The parties further stipulated that to the extent the costs of phosphorous removal were "not already included in Option 2" of the plant upgrades presented in Cause No. 44272, "construction cost expenditures for phosphorus removal and engineering in rate base in future rate cases will be addressed in the same manner as other rate base additions that have not been pre-approved." (Stipulation and Settlement Agreement Re: CETP-III, Cause NO. 44272, p. 5.)

In its Case-in-chief, Petitioner provided little or no evidence to support any finding that its proposed \$1.5 million expenditures for rate base addition for phosphorus removal is reasonable or that the expenditures totaling that expenditure will be prudently incurred. Nor have we any basis on which to conclude that the \$1.5 million, which it anticipates will be charged by its affiliate is fair and reasonable and comparable to what an unaffiliated entity would have charged. In its proposed order, ASU asks us to find that the OUCC presented no evidence that Petitioner's estimated cost of \$1.5 million for chemical phosphorus is unreasonable. It is not sufficient for Petitioner to justify the ratemaking treatment it requests by pointing out a lack of responsive evidence to a prima facie case it never made. Both the settlement it entered into with the OUCC and its role as a petitioner seeking rate higher rates indicate Petitioner's obligation to support its request with proof. No such proof was provided. Indeed, Petitioner's case-in-chief with respect to expenditures associated with chemical phosphorus removal consisted merely of a repetition of the cost of \$1.5 million dollars without any breakdown of that total or explanation

of how that amount was determined or why that amount should be considered reasonable. We do not agree that the request itself constitutes the proof required to make a prima facie case.

The OUCC did seek to understand the nature of Petitioner's request with respect to chemical phosphorus removal, asking for cost details to support Petitioner's request for \$1.5 million rate base addition (OUCC Attachment JTP-2, page 249 of 258). Petitioner responded in the test of a data request response with an "engineer's estimated cost of installation of the standby chemical feed system," the total of which did not match the amount requested by Petitioner in its case-in-chief. In any case, Petitioner provided no support for the numbers in the breakdown in the engineer's estimate that would show the estimated cost should be considered reasonable. We are lacking any such evidence to permit any conclusion other than Petitioner has requested we authorize it to include in rate base \$1.5 million for a chemical phosphorus removal system it has yet to build.

Most importantly, Petitioner has not yet built its chemical phosphorus removal system. As we noted above, the stipulation with respect to the Carriage Estates Treatment Plant provides that "to the extent actual construction costs are greater than the preapproved amount, it will be Petitioner's burden to show that the amount charged by its affiliate is fair and reasonable and comparable to what an unaffiliated entity would have charged." (Emphasis added.) (Stipulation and Settlement Agreement Re: CETP-III, Cause NO. 44272, p. 5.) In this case, Petitioner has asked us to pre-approve in rate base a total of \$11.5 million for the CETP-III project of which \$1.5 million is for chemical phosphorus removal plant. We consider the cost of any chemical phosphorus removal system is an expenditure in excess of the \$10,000,000 pre-approved amount. The stipulation is clear that before we receive evidence on whether any excess expenditures may be included in rate base, we must look at the "actual construction costs." A construction cost is not an "*actual* construction cost" until it has *actually* been incurred. Therefore, even if Petitioner had supported its estimated costs with substantial evidence, it would nonetheless be premature to find those additional expenditures should be included in rate base.

Although there has been essentially no evidence and therefore no prima facie case to support the reasonableness of the \$1.5 million rate base addition Petitioner seeks to include in rate base, we do not find that such an improvement should not be the subject of post-order compliance and potential inclusion in rate base in the subsequent phases of this case. Moreover, through its proposed order, the OUCC consented to including the system as a rate base update item the cost of which Petitioner must show is reasonable and prudently incurred once built and placed in service.

Coupled with our finding in our pre-hearing conference order that authorizes subsequent phases through June 30, 2018, we find that inclusion in rate base of a chemical phosphorus removal system may be the subject of a compliance filing in this Cause. Inclusion in rate base of such expenditures will depend on Petitioner making a prima facie case no less complete than the case contemplated in the settlement agreement in Cause No. 44272. Petitioner indicated it proposes to include the chemical phosphorus removal system as a rate base update. If Petitioner completes a chemical phosphorus removal system and has included support for such a system in one of its two compliance filing, we will convene a pre-hearing conference to establish a procedural schedule including a meaningful opportunity for the OUCC to produce responsive evidence and the holding of a hearing.

Unlike the Klondike Road project costs, the \$10,000,000 cost of the CETP-III project is significantly less than the total cost of the project ASU has estimated for purposes of this proceeding. Moreover, unlike the Klondike Road Project, Petitioner intends to use its affiliate to complete the project. While Petitioner has limited its rate base request to \$11.5 million for purposes of this rate case (\$10 million + \$1.5 million for standby chemical phosphorus removal), it has not waived for all time the ability to seek to include a return on and return of its total anticipated construction costs in a subsequent rate case. The OUCC in its case expressed great concern with both the total cost and the scope of the CEPT-III project. The post order rate base update process and procedures must be informed by the circumstances surrounding each of the discrete projects. Petitioner proposes updating rates to include in its rate base expenditures that will be made to complete the Klondike Road Project, that exceed the amount preapproved in Cause No. 44272. But with respect to the CEPT-III project, except for the chemical phosphorus removal plant, Petitioner would include in rates only the \$10,000,000 that was preapproved. The cost of its proposed chemical phosphorus removal system estimated to cost \$1.5 million was not pre-approved.

III **C. CETP III Project - Excess Expenditures Not Included in Phase II and Phase**

In his rebuttal testimony, Petitioner's Accounting witness Mr. Skomp discusses the scope of this proceeding:

As plant is phased in, ASU's proposal is to calculate the rates based on the actual investment up to the forecast. But for purposes of reviewing the additional dollars that are to be invested, we are presenting the forecast of those dollars in the case-in-chief. ASU is essentially seeking preapproval of additional investment beyond what has already been preapproved. We are presenting the amounts that ASU wishes to invest. Now is the time to determine whether those additional investments should be preapproved.

Skomp -35 (emphasis added.)

The foregoing statements were included in Mr. Skomp's discussion of how rates should be phased-in. But we must also view those things expressed by Mr. Skomp in light of Petitioner's plans to expand its Carriage Estates Treatment plant at a cost that is double what Petitioner seeks in rate base in this case. When Mr. Skomp said that ASU is "presenting the amounts that ASU wishes to invest" and added that "Now is the time to determine whether those additional investments should be preapproved," it is not clear whether Mr. Skomp is only referring to the yet to be incurred \$11.5 million of CEPT-III expenditures ASU wants to include in rate base in this case. It is possible Mr. Skomp is talking here about *all* excess expenditures. In particular, Mr. Skomp might be suggesting that ASU is seeking preapproval of the roughly \$20 million it estimates to complete its planned Carriage Estates plant expansion.

In Cause No. 44272 the OUCC expressed concern about the size and the projected cost of the proposed expansion to the Carriage Estates Wastewater Treatment Plant. It opposed Petitioner's proposed plant expansion based on its position that design flows and costs were overstated. In response, ASU set forth four plant expansion options, and these options and

ASU's estimated costs in Supplemental Rebuttal Testimony of Mr. Serowka under Cause No. 44272 (pages 12-17). These options were as follows:

Option 1 – Re-rate the plant to 2.0 MGD and make upgrades needed to replace deteriorated equipment causing operational problems.

Option 2 – Upgrade and expand the plant to a capacity of 3.0 MGD

Option 3 – Upgrade and expand the plant to 4.0 MGD, but do not install the additional tanks that would permit the plant to be readily expanded to treat 6.0 MGD.

Option 4 - Upgrade and expand the plant to 4.0 MGD, and install the additional tanks that would permit the plant to be readily expanded to treat 6.0 MGD.

In Cause No. 44272, the OUCC entered into a settlement agreement with ASU that limited the pre-approval of expenditures to \$10,000,000, which was derived from Option 2. (See p. 3 of the settlement.) The settlement further provided that “To the extent Petitioner builds something with a capacity greater than Option 2 (3.0 MGD) and seeks to include such incremental cost in rate base in a future rate case, it will be Petitioner’s burden, as in all cases to the extent plant additions have not been preapproved, to demonstrate the expenditures were reasonable and prudently incurred. (Stipulation and Settlement Agreement re CETP III, Cause No. 44272, p.4)

The OUCC and ASU also stipulated that Petitioner may choose to construct Option 4. But the OUCC did not waive any position it may take with respect to option 4 expenditures exceeding \$10,000,000 including but not limited the reasonableness, prudence, necessity, or scope of Option 4. (Stipulation and Settlement Agreement CETP – III, p.4) In other words, ASU agreed that to the extent it elects to build a 4.0 MGD plant with tanks built for 6.0 MGD, it proceeds with the risk this Commission may ultimately agree with the OUCC’s earlier position that building Option 4 was unreasonable, unnecessary, and imprudent. We must clarify that ASU has not, through this case, lessened any of that risk. To the extent Petitioner is seeking pre-approval of any expenditures in excess of the \$10,000,000 for which it has already received pre-approval, we decline to treat this as a pre-approval case.¹ Petitioner has already had its pre-approval case for the Carriage Estates Treatment Plant expansion, and by agreement, which we authorized and approved, ASU received pre-approval for expenditures up to \$10,000,000. The plain language of that settlement establishes that whether any expenditures in excess of that amount would be considered once they had been incurred subject to the OUCC’s ability to raise issues with respect to the reasonableness, prudence, necessity, and scope of the expenditures. Except for its standby chemical phosphorus removal system, Petitioner did not in this case ask to include in rate base expenditures in excess of the \$10,000,000. Accordingly, neither this order nor any Phase-in process in this case shall be construed as an endorsement of Petitioner’s plan to implement Option 4.

¹ As of the close of the evidence in this case, ASU had not completed or commenced any expansion of its Carriage Estates Treatment plant. In this case Petitioner seeks to include in rates (Phase II) its chemical phosphorus treatment system for which it had not received pre-approval. In as much as ASU does not agree that such expenditure should be subject to any meaningful review after it has been built, ASU seeks an additional pre-approval. We address that request in another part of this order.

If this was the time to consider pre-approval of Petitioner's plan to implement Option 4, we would follow the OUCC's recommendation and deny any such further pre-approval. We would agree with the OUCC that the plant expansion is oversized and the estimated costs should not be considered reasonable for purposes of any pre-approval.

OUCC engineering witness Mr. Parks noted ASU is building all major structures and piping to treat daily average flows of 6.0 MGD and a peak flow of 12.0 MGD. Mr. Parks asserted ASU's chosen design is for flows twice the population to be expected at the end of a 20-year planning period. He noted ASU did not derive design flows from any population forecast but instead from ASU's claim of flows doubling every 10 years. Mr. Parks explained that ASU's estimated flow projections are not based on population served. Therefore, its design flows are fundamentally flawed leading to the construction of unneeded larger and more costly treatment tanks.

Mr. Parks noted the Ten State Standards provide that "the sizing of wastewater facilities receiving flows from new wastewater collection systems shall be based on an average daily flow of 100 gallons per capita plus wastewater flow from industrial plants and major institutional and commercial facilities unless water use data or other justification upon which to better estimate flow is provided."² He explained that a utility considering its capacity requirements should look at the number of people (connected population) it serves, not simply the number of households it serves. To determine the necessary flow capacity of a plant expansion, he said utilities like ASU should forecast the population increase over the planning period, calculate additional flows for the increased population at 100 gallons per capita per day ("gpcd") and add these new flows to the historic flow.

Mr. Parks noted that in its 2013 construction permit application for the Carriage Estates WWTP expansion, ASU listed the 2030 Design Year and 2040 Future Year populations as 40,000 and 60,000 people respectively. Mr. Parks believed those projections for 2030 and 2040 significantly overstate the expected populations. He noted the addition to its population of 25,000 people between 2013 and 2030 suggested by ASU in its construction permit application exceeds the population forecast by the Indiana Business Research Center for *all* of Tippecanoe County. Mr. Parks noted that Tippecanoe County has 13 townships, and ASU's Carriage Estates WWTP lies entirely within only one of these townships (Wabash Township). Likewise, the addition of another 20,000 people that ASU claims will be added to its system between 2030 and 2040 also exceeds the IBRC population growth forecast for *all* of Tippecanoe County for that 10-year period.

Mr. Parks said it appears ASU simply backed into these populations by starting with its desired flows (of 4.0 MGD and 6.0 MGD) and dividing by 100 gpcd. During cross-examination by the OUCC, Mr. Serowka acknowledged that was precisely what he did to reach those

² Section 11.243 Hydraulic Capacity for Wastewater Facilities to Serve New Collection Systems, *Recommended Standards for Wastewater Facilities* (Ten States Standards), 2014 Edition, by the Great Lakes – Upper Mississippi River Board of State and Provincial Public Health and Environmental Managers.

population projections Hr. Tr. A-59. In his testimony, Mr. Parks said such a method is backward and would lead to erroneous unfounded population projections to support its plant expansion.

Mr. Parks noted that although the existing CSBR tanks are operating at 73% of the organic loading capacity, ASU intends to nearly triple the volume of its CSBR tanks. Mr. Parks explained the OUCC continues to recommend ASU pursue Option 2, which doubles the CE WWTP capacity to 3.0 MGD by constructing two additional CSBR tanks of the same size as the current four CSBR tanks. He explained this expansion would be sufficient to treat future flows and loadings over the next 20 years. He added that ASU's chosen Option 4 will not be prudent because it will construct treatment tanks that will not be used and useful.

In his rebuttal to Mr. Park's testimony on population forecasting, Mr. Serowka accepted Mr. Park's current population estimate as well as his forecast of the 2040 population of 24,978. Mr. Serowka noted that a 100 gpcd flow per the projected population would produce a flow of 3.13 MGD, which he says would exceed the 3.0 MGD plant the OUCC says would be appropriately sized.³ He said this flow did not also take into account any "growth in flows from commercial or schools." The OUCC disagreed that the methodology proposed by the Ten States Standards necessarily requires an additional calculation for commercial or schools.⁴ But we should also note that Mr. Serowka's calculation assumes the current population of 11,756 will continue to produce flow of 1.81 MGD through 2040. That is more than 150 gpcd. To the extent the 1.81 MGD currently flowing to the plant includes I&I, Mr. Serowka's calculation assumes none of that I&I will be eliminated by ASU in the next 24 years. It also assumes no improvements in water efficiency during that time that would reduce base sanitary flows. Another way to calculate the flow in 2040 from the population of 24,978 is to multiply that number by the long 100 gpcd, which would result in a design flow of service population number accepted by Mr. Serowka of 2.5 MGD.

We also note that the Ten States Standards relies on a projection of 20 years for the sizing of plant, which we would note does not occur during construction, but during design. Petitioner's construction permit application was submitted to IDEM more than 25 years before 2040. (IDEM received ASU's construction permit application on January 13, 2014 and issued Construction Permit 20788 on February 21, 2014.) Moreover, Mr. Serowka's position does not acknowledge the possibility of improved appliances to produce declining use of water over the next 24 years reducing per customer flow to the plant. More importantly, Mr. Serowka's argument does not acknowledge any ability or interest by ASU in reducing Infiltration and

³ Mr. Serowka arrived at the 3.13 MGD by adding the existing flow to the plant of 1.81 MGD to the difference in population between today and 2040 and multiplying that difference by 100 gpd. $(1.81 \text{ MGD} + (13,222 \times 100 \text{ gpd}) = 1.81 \text{ MGD} + 1.31 \text{ MGD} = 3.13 \text{ MGD}$. Serowka Rebuttal, p. 43.

⁴ On pages 33 – 34 of his testimony, Mr. Parks indicated that The Ten State Standards provide that "the sizing of wastewater facilities receiving flows from new wastewater collection systems shall be based on an average daily flow of 100 gallons per capita plus wastewater flow from industrial plants and major institutional and commercial facilities unless water use data or other justification upon which to better estimate flow is provided." Petitioner has not identified any industrial plants or major institutional or commercial facilities that have plans to be served by ASU.

Inflow (I&I) to the wastewater treatment plant. Mr. Serowka testified ASU has a current daily flow of 1.81 MGD. (Serowka Rebuttal – p. 43) Mr. Serowka also accepted Mr. Park’s current population of 11,756. That population producing 100 gpcd should produce a daily flow of 1.18 MGD, a difference of more than .60 MGD⁵. Further, Mr. Serowka acknowledged the 100 gpcd already included an allowance of 30 gpcd for I&I. (Serowka Rebuttal testimony, p. 25, lines 8-19.) (See also Testimony of James Parks, Public’s Exhibit No. 2, p. 42) If we remove I&I from the factor, the population ASU serves is producing base sanitary flow of 822,920 gallons per day (70 gpcd x 11,756 = 822.920 gallons per day). This suggests that ASU is currently treating nearly one million gallons of I&I per day. It would appear more than half of what flows into ASU’s Carriage Estates Treatment Plant is I&I.

Mr. Serowka testified that ASU does not have a specific line item in its budget for I&I. (Serowka Reb., p. 23). He notes “We haven’t smoke tested in a number of years.” *Id.* Mr. Serowka testified ASU knows it has I&I, but it does not know how much I&I it has. Hr. Tr. A-84. During cross-examination by the OUCC, Mr. Serowka testified he believed addressing I&I is an exercise in futility. Hr. Tr. A-84.

Mr. Serowka insisted that “ASU is pursuing a prudent course of expanding to 4.0 MGD with flexibility to expand to 6.0 MGD.” He asserted that going with a smaller plant expansion would likely require another expansion to begin in the next ten years. He added that adding the flexibility for future expansion to 6.0 MGD is prudent as it will allow ASU to address more aggressive population growth as well as commercial growth not captured by the population forecasting. (Mr. Parks explained in his testimony that Option 4 is really a 6.0 MGD plant because nearly all major structures and piping are constructed upfront except for some process equipment for one of the CSBR tanks and one influent lift station pump.)

Petitioner applied to IDEM for a building permit in 2013 to build a plant with a capacity of 6.0 MGD. Whether the accepted population forecasts for 2040 (more than 25 years from its design) indicate a flow of 2.5 MGD or 3.13 MGD as Mr. Serowka’s calculation suggested, the capacity of treatment plant Petitioner proposes to build does not appear to be appropriate and is not supported. We would question the prudence and reasonableness of such plans, and we remind ASU that it moves forward at its own risk that expenditures associated with such a plant expansion may be disallowed.

In addition to the proposed scope of the improvements, Mr. Parks expressed concerns about ASU’s construction cost estimates. He considered the construction costs to be inflated for the cost of labor, the required labor hours, and particularly for the concrete. He noted ASU estimated the concrete cost at \$900 per cubic yard in 2012 regardless of whether it is in a wall or a tank bottom slab. He noted concrete costs vary considerably depending on where the material is to be placed. He added that minimal forming and bracing is required for bottom slab concrete, therefore it presents the lowest concrete cost. Moreover, Mr. Parks added that ASU’s concrete costs per cubic yard are significantly above the National Average costs presented in the Heavy Construction Cost Data book, 2016 Edition, published by RS Means (“Means Manual”). For concrete walls, ASU’s cost at \$900 per cubic yard is nearly twice as high as the RS Means’ cost. He noted that for the concrete bottom slab, ASU’s costs per cubic yard placed is more than four

⁵ Extending the 1.8 MGD of flow assumes the same level of I&I of its current service population

times the RS Means' cost. Mr. Parks noted that ASU's cost estimate lists a separate 8% contractor profit on the estimated construction costs for the entire Carriage Estates project, which adds another \$72 bringing ASU's total concrete cost to at least \$972 per cubic yard.

In Cause No. 44272, ASU was granted preapproval of \$10,000,000 of expenditures and, except for its chemical phosphorus removal addition, which we address elsewhere in this order, Petitioner does not seek to include in rate base, in this rate case, any amounts in excess of the pre-approved amount. To the extent ASU would consider this case an application for additional pre-approval for expenditures associated with its Carriage Estates Treatment Plant, such request is hereby denied. Otherwise, other than to remind ASU that it proceeds at its own risk, we need make no further pronouncement with respect to the scope of the project or the costs of the project.

In light of the quality of records and documentation ASU has kept of its improvements, whatever plant ASU builds, particularly with the assistance of its affiliate First Time, ASU should require, compile, and maintain records of all costs incurred during construction of the Carriage Estates Expansion including invoices and other documentation that would establish the costs incurred for materials, labor, equipment, engineering, project management, and other components that would be included in rate base.

7. Petitioner's Net Original Cost Rate Base.

A. Net Original Cost Rate Base as of March 31, 2015.

This is a basic rate case, and, at its core, our task is as follows: "After existing levels of 'return' and 'rate base' are determined, the Commission must decide whether the 'rate of return,' the ratio of 'return' to 'rate base,' is deficient, adequate or excessive." *City of Evansville v. Southern Ind. Gas & Elec. Co.*, 167 Ind.App. 472, 480, 339 N.E.2d 562, 569 (1975). In this case, Petitioner contends its return is "deficient" and has proposed to implement a rate increase in three steps, with all steps beginning with net original cost rate base as of March 31, 2015, and each step adjusting the March 31, 2015 figure for one or more of the significant projects described herein. Petitioner seeks a rate increase at each step. The OUCC testified Petitioner did not adequately support its beginning net original cost rate base in its case-in-chief and was unwilling or unable to provide a list of rate base additions since its last rate increase indicating in response to discovery that it has not compiled the information requested. In its case-in-chief the OUCC calculated its net original cost rate base from the net original cost rate base figure that was used to set the Phase I rates in ASU's last rate case, Cause No. 41254 decided in 1999.⁶ In its case-in-chief, the OUCC recommended an overall rate increase in Phase III preceding by an initial rate decrease in Phase I and a rate increase over Phase I rates in Phase II, which would still be lower than current rates.

⁶ The OUCC's proposed rate base is calculated from the rates approved in Phase I and not the current rates approved in Phase II in Cause No. 41254. The OUCC's proposed Utility Plant in Service starting point of \$2,416,480 (Public's Ex. No. 1, Schedule 8, p. 1) does not include the Carriage Estates II upgrade, which was preapproved in that Cause. See Petitioner's Administrative Notice Ex. No. 1, p. 17. The actual Utility Plant in Service used to calculate current rates was \$4,444,882. See *id* at 17, 19.

Almost all of the difference in the ultimate rates proposed is attributable to the difference in what the proper figure for net original cost rate base as of March 31, 2015 should be. We start our discussion by noting that Petitioner has included in its proposed order the Commission's 1993 exposition on the Burden of Proof Issues from Cause No. 39314 affecting rates of the Indiana Michigan Power Company. In that discussion, we noted that once an applicant for rate increase has presented a prima facie case for rate relief, opponents of the rate request have the burden of going forward their evidence. We defined a "prima facie case" as one which presents "such evidence as is sufficient to establish a given fact and which if not contradicted will remain sufficient." Our discussion that followed addressed mainly proof required to establish operating expense levels. Nonetheless, the discussion may nonetheless shed light on how rate base issues should be addressed. We noted that evidence that a certain level of expense will be incurred for ordinary and necessary business expense by the utility is sufficient to present a prima facie case. We also reiterated the principle that it is "incumbent upon [petitioner] to furnish some data supporting the propriety of a given level of revenue or expense, particularly with [petitioner] specific information. We then noted this does not mean the level of expense must be proved by "clear and convincing evidence" or "beyond a reasonable doubt."

But the OUCC has never suggested that ASU was required to support its *pro forma* rate base with "clear and convincing evidence" or "beyond a reasonable doubt. The OUCC's Mr. Patrick merely said ASU has the burden to provide support for the rate base it seeks in this Cause.

The issue before us is whether ASU made a prima facie case for its rate base additions and other components of rate base as of 3/31/2015. And if we find that ASU met that prima facie case, we must determine whether the OUCC shifted the burden back to ASU with the evidence it provided.

ASU proposed a *pro forma* rate base of \$7,008,113, which the OUCC did not accept due to ASU's inability or unwillingness to provide through its case or in response to discovery requests support for Utility Plant in Service (UPIS), CIAC, and accumulated depreciation added since its last rate case. Petitioner's case with respect to utility plant in service as of March 31, 2015 essentially consisted of a number (\$18,622,849.90). See MSFR #53. Petitioner suggests that in giving such a number, Petitioner shifted the burden of presenting evidence in UPIS to the OUCC.

If it is "incumbent of the Petitioner to provide some data supporting the propriety of a given level of expense" we do not consider the mere UPIS number to be sufficient. By that logic, any representation or in some cases the prayer for relief could be said to shift the burden to the responding party. The fact is Petitioner provided no invoices or schedules in its case to support UPIS since its last general rate case in the amount of \$16,212,079. And as Mr. Patrick explained, as of the filing of its case, Petitioner provided no such invoices by other means. Mr. Patrick noted the OUCC sought support through discovery to identify all added utility plant in service by project as well as the dollar amount. Petitioner objected to providing documentation either by project or item or invoice to substantiate the proposed UPIS portion of rate base. (See Attachment CEP - 4.) Petitioner also did not support its contributions in aid of construction ("CIAC") balance of \$6,590,571 in its case or in response to discovery. If the amount of UPIS

claimed can be said to make a prima facie case, Petitioner's inability or unwillingness to provide such support can certainly be said to have shifted the burden back to Petitioner.

Petitioner noted its response to the OUCC's discovery suggested such information would be made available to the OUCC at its on-site audit. But we also note that the invitation came after Petitioner's pronouncement that it "has not compiled the information requested." Petitioner's objection also asserted it would be unduly burdensome for ASU to compile the information the OUCC requested. It certainly would be no less burdensome for the OUCC to sift through ASU's invoices and other records to verify \$16 million of improvements (original cost). ASU has the burden to provide support for the rate base it seeks in this Cause. At a minimum, Petitioner should be able to provide a list of the improvements and investments it seeks to include in rate base.

In the absence of the ability of Petitioner to provide such a list together with a representation that it does not compile such records, the OUCC would have appropriately viewed ASU's UPIS and rate base totals with some skepticism. Moreover, the Public has an obligation as well as a right to review Petitioner's application for rates to determine whether any of the improvements included in rate base are in service, used and useful and actually paid for by the utility. It also may and should investigate whether improvements were reasonable and prudently incurred. We agree with the OUCC that Petitioner did not meet its obligation to support its components of rate base as of March 31, 2016.

Petitioner also cited the MSFRs stating that they do not require an explanation or itemization of rate base additions since the last rate order as a part of its case-in-chief. Petitioner also noted that no party filed a notice under 170 IAC 1-5-4(a) claiming that ASU's submission did not comply with the MSFRs. While the MSFRs do not require a listing of rate base additions since its last rate order as part of its case-in-chief, this does not mean that a verification of plant additions since its last rate order is needed to verify that plant additions are actually used and useful and were prudently incurred. Additionally, just because no party filed a notice claiming that ASU's submission did not comply with the MSFRs doesn't mean a party has waived its rights to discovery. The OUCC sought through discovery to attain a listing of the rate base additions since ASU's last rate order and ASU was unable or unwilling to provide the list.

(1) Utility Plant in Service. In the OUCC's first set of data request questions to ASU the OUCC sought copies of invoices or other documentation that would support additions to UPIS since the last rate order. The OUCC asked for Petitioner to identify all UPIS added by individual item or project since the last rate order⁷. Public's Ex. No. 1, Attachment CEP-1 - 5. ASU objected to providing the information and indicated they had not compiled the information, but would make available to the OUCC its books and records during the on-site audit. In its second set of data request questions, the OUCC again sought a list of individual assets, including the date placed in service and a description of the asset. *Id.*, Attachment CEP-6. Again ASU objected to providing the information sought by the OUCC and was not even able to provide a

⁷This request is consistent with the NARUC Rate Case Audit Manual included in Mr. Patrick's workpapers. This Manual instructs that the "examination *can start* by asking the utility to identify the major plant additions by year..." p. 17 (Emphasis added.) "Once this list is received, the auditor *may wish* to follow-up on specific project" *Id.* (Emphasis added.)

list of major plant additions since the last rate case. Additionally in the first set of data requests the OUCC sought support for its contributions in aid of construction (“CIAC”) balance of \$6,590,571. Petitioner declined to provide the information pertaining to CIAC. Mr. Patrick explained that with no support provided the OUCC is unable to verify and cannot accept Petitioner’s additions to rate base since its last case.

In its proposed order Petitioner notes the position the OUCC took in another case, *Kingsbury Utility Corp.*, Cause No. 44590-U. In that case, the OUCC’s introductory audit letter asked that the utility be prepared to make available during the onsite review “support for all additions to rate base since the last rate case.” Petitioner’s Ex. No. CX-4, Attachment 1, p. 3.⁸ The OUCC then used the support that it was given during the audit and compared that support to the utility’s annual reports to the Commission during the period in question to determine and to evaluate the additions to rate base since the last rate case. While we approved the OUCC’s approach in that case we would note that the facts of this case are quite different and that approach would not be applicable. The Kingsbury case was a small utility filing, the timeframe since the last rate order was significantly shorter and the dollar amount in question was much smaller. Based on Petitioner’s responses to discovery it is understandable why the OUCC chose to not attempt to review the “records” at the audit as it took Petitioner at its word that they had not compiled the information. At the hearing Mr. Skomp was asked if he compiled the invoices provided in response to the Commission docket entry. He responded that he did not; it took ASU staff hours of work to find and provide the invoices sought by the OUCC and the Commission. Hr. Tr., p B 95. It is unreasonable to expect the OUCC to use its time at the audit to comb through Petitioner’s records in an attempt to find support for rate base additions. A list of assets is something a well run utility should have on hand and be able to provide easily without hours of work by staff. If Petitioner had put the effort into answering the OUCC’s discovery request that was put into answering the Commissions docket entry questions perhaps the dispute over rate base could have been avoided or at least focused to particular items. .

In its rebuttal evidence, ASU included all of its annual reports to the Commission since its last rate case. Petitioner’s Ex. No. 2R, Attachment JRS-R6. OUCC Witness Patrick testified that he had reviewed those reports for purposes of his analysis. Public’s Ex. No. 1, p. 4. Those annual reports summarize by utility plant account number the additions to utility plant in service for each particular year. In rebuttal testimony, Mr. Skomp testified that the vast majority of the utility plant in service additions have been to gravity sewers, and he identified the annual increases in gravity sewers since the last case. Petitioner’s Ex. No. 2R, pp. 12-13. Mr. Skomp explained that the gravity sewers that have been added have allowed Petitioner’s system to grow by approximately ten times, and that these sewers have allowed all of the customer growth and revenue increases since 1999. *Id.*, pp. 13-14. He further testified that the revenues from that growth were included in the OUCC’s calculation of *pro forma* revenues, Mr. Patrick testified that the OUCC excluded accumulated depreciation and CIAC associated with the rate base being excluded. The OUCC was able to ascertain what ASU’s current revenues were, but the OUCC was not able to get support for rate base additions. *Id.* The OUCC’s approach, which uses

⁸ The introductory audit letter is a “list of the items that should be waiting and available during the field visit.” Petitioner’s Ex. No. 2R, Attachment JRS-R3, p. 13. The OUCC’s introductory audit letter to ASU did *not* include a request that support for rate base additions since the last case be available as had been done in Cause No. 44590-U. *Id.*, Attachment JRS-R4.

current revenues from current customers connected to a current collection system, relies on utility plant in service figures from 1999 but excludes accumulated depreciation and CIAC associated with the rate base additions since 1999. We agree with this approach since it acknowledges the fact that the revenues were supported but the plant additions were not. We believe this strikes an appropriate balance.

Mr. Skomp also identified the plant account annual increases other than gravity sewers, which exceeded the dollar value threshold for a “major project” under the MSFRs (one percent of net original cost rate base). Petitioner’s Ex. No. 2R, pp. 15-16. The Commission by Docket Entry requested the invoices and details (limited to invoices exceeding \$10,000) for those years and accounts identified by Mr. Skomp. Petitioner’s Ex. No. 6. In addition to our Docket Entry Request, the OUCC served an additional data request in an another attempt to gather the information sought at the very beginning of the case, which requested detailed support for all utility plant in service additions since the last rate case which exceeded \$250,000 in amount and also requested supporting documentation for major additions since the last rate case. Petitioner’s Ex. No. CX-1. Shortly before the hearing Petitioner responded and submitted five supplemental responses to this data request. Petitioner’s Ex. No. CX-2. Petitioner submitted a supplemental response indicating that during the course of compiling responsive materials for the \$250,000 threshold question, it had also gathered invoices for smaller additions that it had encountered during its search. Petitioner’s Ex. No. CX-3. The Docket Entry Response itemized a series of smaller purchases, consisting of various work trucks and equipment, pumps, and generators. Petitioner’s Ex. No. 6, Response A6, Attachments C, D, E, F, H, and I. In addition, two of the identified projects were actually included in rate base in the last rate case – County Home II and Carriage Estates II. *Id.*, Attachments A and B.⁹ Two projects identified in the Docket Entry response are larger projects (the County Home Treatment Plant III and the Cottages on Lindberg lift station upgrade) which, given their size and other circumstances, we will describe separately. The materials supplied in response to the OUCC request for additions greater than \$250,000 include these two projects just mentioned as well as the following: (1) the Willowbrook Lift Station constructed in 2000 by an unaffiliated contractor (Petitioner’s Ex. No. CX-2, Second Supplemental Response Attachment 1); (2) the Meijer Sanitary Sewer extension constructed in 2002 by an unaffiliated contractor (*id.*, Attachment 2); (3) the Morehouse Road Interceptor Sewer constructed in 2002 by an unaffiliated contractor (*id.*, Attachment 3); (4) the Klondike Interceptor Sewer constructed in 2003 by an unaffiliated contractor (*id.*, Attachment 4)¹⁰; (5) the Copper Beach Sewer extension cost-certified by an unaffiliated contractor (*id.*, Original Response, Attachment 6); (6) the Harrison Highlands Sewer extension cost-certified by an unaffiliated contractor (*id.*, Attachment 7); (7) the Winding Creek Sewer extension cost-certified by an unaffiliated contractor (*id.*, Attachment 8); (8) the 231 Sewer Relocation which was supported by multiple invoices (*id.*, Attachments 10 and 9); and the Lindberg Interceptor Sewer, constructed by First Time in 2005 (*id.*, Fourth Supplemental Response, Attachment 3). Because of its magnitude and the construction by First Time, we will also discuss the Lindberg Interceptor Sewer separately. While the 231 Relocation Project does include some First Time

⁹ While Petitioner received invoices for these projects during construction, they apparently were not reflected in Utility Plant in Service as shown in the annual reports until the projects were actually completed (as contrasted with being “in service” yet with remaining work to do to finish) (County Home II – 2000 and Carriage Estates II – 2001). *Id.*

¹⁰ For these first four projects, also see Petitioner’s Ex. No. CX-2, Fourth Supplemental Response.

costs, the overall payments to First Time are much lower than the other three projects, and the overall cost of the 231 Relocation has not been shown to be unreasonable. The additional details and cost support that ASU located and provided during the course of responding to the OUCC's February 29, 2016 data request also include a series of smaller purchases and investments, yet still do not account for all additions to rate base since the last case and the quality of the First Time invoices is not appropriate to support rate base additions as they are "work in progress" invoices which provide no meaningful detail. We would note that if ASU had provided this material when the OUCC first sought it in response to data request set No. 1, some of the dispute over rate base additions since the last case most likely could have been avoided. We would also note that Petitioner indicated it did not compile the information, suggesting that a motion to compel would not have yielded the information desired.

Petitioner's Ex. Nos. 6 and CX-2 and CX-3, together with the annual reports, claim to reconcile nearly all of the starting Utility Plant in Service difference of \$16,212,079 between ASU (\$18,628,559) and the OUCC (\$2,416,480). We received into evidence invoices or other cost information representing \$13,579,722 in Utility Plant in Service additions; and, from the annual reports, ASU's books reflect another \$3,207,170 in gravity sewer extensions that were less than the \$250,000 threshold. We do not accept using the annual reports as a proper way to justify rate base additions in this case. Additionally the cost support provided for the \$13,579,722 is lacking and contains some questionable additions. The invoices provided include Cadillac Escalades purchased in 2004, 2005, 2008, and 2010 and a backhoe sold to an affiliate and rented back to ASU. There are also \$7,100,512.49 of First Time invoices provided as support but are completely lacking in detail and thus do not support the additions to rate base. The First Time invoices provided by Petitioner provide little information beyond the date, the project name, the amount being requested and the total invoiced to date for the specific project. This minimal information is not acceptable and cannot support rate base additions. First Time or any contractor should provide, and ASU should require, invoices that show detail for the amount being requested. This detail would include labor by individual name, hourly wage and total by individual employee for the invoice period. It would provide detail of materials purchased including pipe, stone and bedding materials, etc. It would provide a listing of rental equipment and specialty equipment including pumps. It would show the balance remaining on the contract for the project. Based on the detail contained in the First Time invoices we must reject them as being inadequate support for rate base additions. The lack of detail provides no basis for us to conclude that the expenditures associated with those additions were reasonable or prudently incurred.

Another component of rate base support proffered by Petitioner is proposals for work. A proposal by a contractor whether it is First Time or an unaffiliated party does not represent support or invoices for rate base additions. ASU should demand that each project have detailed invoices provided by the individual contractor. It is ASU's responsibility to provide complete project detail supporting any expenditure it makes for construction or asset acquisition. ASU is not adequately documenting its capital expenditures and maintaining proper accounting records as set forth in the Uniform System of Accounts for Class A Wastewater Utilities, 1996, p. 15, "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant

thereto.” We find ASU is not adequately documenting its capital expenditures and maintaining adequate detailed support for its capital expenditures. We order ASU to maintain and properly document expenditures, capital or not, in such a manner so as to provide complete, detailed information for each entry made into its accounting records.

In its proposed order Petitioner mentioned three projects that it felt warranted greater discussion: County Home III, the Lindberg Interceptor, and Cottages on Lindberg. None of these projects were adequately detailed or supported by the evidence presented in this case. All three of these projects were apparently completed by First Time. First Time’s invoices do not include adequate detail to permit them to be useful to validate project costs. We would note that these projects are examples of things that would have been included on the list of UPIS added since the last rate case requested by the OUCC through discovery. It was never explicitly disclosed that Petitioner seeks to include County Home III improvements in its rate base additions, and we were not otherwise aware ASU may be seeking to include County Home III in rate base until Petitioner provided invoices for the work in progress in response to our docket entry. An addition to plant of this size should be subject to some sort of review, which was not possible due to Petitioner’s failure to provide the support.

At the hearing we pointed out several items that did not appear to be properly included in UPIS. There are eight invoices from an entity known as L3 Corporation, which is also an affiliate of ASU, and these eight invoices total \$70,011.13. ASU does not have an affiliate agreement on file with the Commission with L3 Corporation, and so we will not recognize these amounts in net original cost rate base. The remaining costs of this project are appropriate and reasonable. We questioned Mr. Skomp regarding a backhoe with a serial number T0310SG924411, as shown on L3 Corporation invoices. The serial number shown was for a backhoe ASU purchased on Invoice Number 2200152 dated September 30, 2003 for \$67,250 from Holt Equipment Company and has the same the serial number included on the affiliated L3 invoices. (See Response to IURC Docket Entry dated March 12, 2016, A6, Attachment D.) This is the same backhoe referenced on the L3 invoices above. The Commission asked Mr. Skomp “if you could explain if the backhoe was being put into rates ..., why was it then also leased by an affiliate back to the utility?” Mr. Skomp answered “That I do not know.” Hr.Tr., p. B-107. We find that the backhoe shall not be included in UPIS since its ownership is in question and ASU’s affiliate L3 Corporation has invoiced amounts to ASU. ASU must maintain its assets including equipment and not move equipment or other assets between affiliate entities without proper sale or lease documentation. The commission removed the \$67,250 backhoe from its UPIS which was a component of the UPIS accepted by the OUCC. The invoices provided in response to the docket entry itemized a series of smaller purchases, consisting of various work trucks and equipment, pumps, and generators. Petitioner’s Ex. No. 6, Response A6, Attachments C, D, E, F, H, and I. We find it troubling that Petitioner provided invoices showing the purchase of Cadillac Escalades in 2004, 2005, 2008 and 2010. We find that these are not standard utility vehicles, and we consider their purchase unusual, questionable, and imprudent. We remove the \$51,356 cost for the 2010 Cadillac Escalade for from UPIS. Petitioner’s Ex. No. 6, Response A6, Attachment I.

There are two remaining issues concerning Utility Plant in Service. First, the OUCC proposed that certain items recorded to expense during the first 12 months of the hybrid test period should be capitalized, an issue which Petitioner accepted on rebuttal. This adjustment has

the effect of adding \$84,550 to Utility Plant in Service, \$32,805 of which relates to plant in service as of March 31, 2015. Public's Exhibit No. 1, Sch. 8, p. 1. The remainder is in Step 1 (\$2,155) and Step 2 (\$49,590). In addition, certain water utility assets were retained by ASU and not sold to Indiana-American Water Company pursuant to our Order in Cause No. 44592. These totaled \$112,609 and are itemized on Public's Ex. No. 1, Attachment CEP-6, p. 9. The OUCC accepted only the backup generator of \$14,271. Public's Ex. No. 1, p. 39. We are satisfied with the explanation of ASU's retention of these assets in Attachment CEP-6, and so we find these assets to be appropriate to operating the sewer facilities and therefore approve reflecting them in ASU's remaining Utility Plant in Service. These assets add \$112,609, including the generator. Other than the deduction to Utility Plant in Service of \$70,011.13 for the L3 invoices associated with the Cottages on Lindberg lift station project, of \$67,250 for the backhoe, of \$51,356 for the Cadillac Escalade and the addition of \$32,805 of previously recorded expense that should have been capitalized, we find the OUCC's proposed Utility Plant in Service balance as of March 31, 2015 to be appropriate. The Utility Plant in Service balance as of March 31, 2015 is \$8,097,318.

(2) Accumulated Depreciation. Because Petitioner was not able to provide support for additions to rate base since its last case the OUCC recommends not including a large portion of those additions in rate base, which we have agreed with. Based on this removal of rate base additions the OUCC recommended an alternative amount of accumulated depreciation. Mr. Patrick proposed the alternative method to calculate an amount of accumulated depreciation. We agree with the methodology used by Mr. Patrick to calculate accumulated depreciation but we need to make some modifications to the number he calculated to account for the inclusion of rate base from the second phase of Cause No. 41542. Also, we have included accumulated depreciation of \$50,079 (\$112,609 less land of \$6,057 times 2.00% [water composite depreciation rate] time 47%) for the \$112,609 water assets discussed above. (See Petitioner's Supplemental Response to May 14, 2015 Docket Entry in Cause No. 44592 and Attachment CEP-6, p. 2.) Petitioner cannot depreciate the full balance of its remaining water assets again. Just because the water assets are being transferred from its water division to its wastewater division does not allow Petitioner to again depreciate these water assets under the guise of transferring them to its wastewater division. We find Accumulated depreciation as of March 31, 2015 is \$2,509,690 (\$644,204, \$1,815,407, 50,079). Schedule 6, Adjustment 12 and Schedule 8 page 1.

(3) Contributions in Aid of Construction. Petitioner included as an offset to net original cost rate base Contributions in Aid of Construction ("CIAC") of \$6,590,571 and advances for construction of \$37,900 as of March 31, 2015. The OUCC agreed with the number for advances but proposed a different number for CIAC of \$320,379. Public's Ex. No. 1, Sch. 8, p. 2. The differences related to two issues: (1) whether contributions would be stated as of March 31, 2015 or as of the amount reflected in Petitioner's last rate case; and (2) whether CIAC associated with the water utility formerly owned by ASU but which has been transferred to Indiana-American Water Company, Inc. would be reflected in sewer rates as required by the Settlement Agreement which was submitted in Cause No. 44592. In addition, if the OUCC's proposed rate base methodology were not accepted, the OUCC added a third issue: whether amounts originally recorded as non-utility income for tap charges should be reclassified as CIAC.

The first issue we have already addressed. We have accepted the OUCC's position to state the rate base as of the amount that was included in Cause No. 41254, plus \$3,607,018 of

additional UPIS supported with invoices provided in response to our docket entry. Accordingly, we include \$294,561 of CIAC related to Cause No. 41254, but will not include any CIAC that may be associated with the \$3,607,018 of additions since the last case.

We reject the OUCC’s proposal to apply CIAC associated with ASU’s former water utility assets, noting further that the OUCC withdrew this request in its proposed order. It is true that the Settlement Agreement in Cause No. 44592 would have required the CIAC associated with Petitioner’s water utility be transferred to the sewer utility upon the sale of the water assets to Indiana American Water Company. We rejected that term of the Settlement Agreement, and Indiana American’s journal entry, which was submitted as a compliance filing in that cause confirms that the water CIAC has now been recorded on Indiana American’s books. Petitioner’s Ex. No. 2R, pp. 29-30 and Attachment JRS-R-8. We were silent in our final order as to whether the OUCC would no longer have the benefit of the bargain it struck. We make that clarification now that by rejecting the OUCC’s testimonial position.

The tap charge issue, however, requires an additional adjustment which the OUCC proposed. We agree that the tap charge differs from the system development charge (approved in Cause No. 44593) in that the tap charge is a cost-based connection charge. Petitioner submitted in response to our Docket Entry its original 30-day filing submitted on March 14, 2002 showing that this is a “connection charge” which is a cost-based fee. Petitioner’s Ex. No. 6, Response A7, pp. 2-21. Petitioner does not separately record its costs of connection, however, and so these costs are embedded in the overall revenue requirement. As such, it is inappropriate to reflect tap charge revenues as below-the-line non-utility income. Instead, the revenues should be reflected above-the-line as CIAC and reduce rate base. Petitioner changed the way it recorded tap fees in its response to our Docket Entry questions, but did not book them as CIAC. We find the \$2,533,574 of non-utility revenue, which is comprised entirely of connection fees, is CIAC and should be accounted for as CIAC. The inclusion of additional CIAC in this case requires an adjustment to Retained Earnings. Retained Earnings will be adjusted downward by the \$2,533,574.

(4) Conclusions on Net Original Cost Rate Base as of March 31, 2015. We find that ASU’s net original cost rate base as of March 31, 2015 is as follows:

Utility Plant in Service	\$8,097,318
Less: Accumulated Depreciation	(2,509,690)
Net Utility Plant in Service	\$5,587,628
Less: CIAC	(2,759,493)
Less: Advances for Constr.	(37,900)
Net Original Cost Rate Base	\$2,721,593

B. Quantifications of Net Original Cost Rate Base. Based on the evidence and the findings made above, the Commission finds that the net original cost of Petitioner’s sewer utility properties as of the three steps to the proposed rate increase is as follows:

	Step 1 Immediately	Step 2 Approximately January 1, 2017	Step 3 Approximately July 1, 2018
Utility Plant in Service	\$ 10,377,922	\$ 13,103,689	\$ 21,128,489
Accumulated Depreciation	(2,706,699)	(2,924,997)	(3,764,108)
CIAC	(2,861,452)	(2,989,969)	(3,136,605)
Advances for Construction	(37,900)	(37,900)	(37,900)
Net Original Rate Base	<u>\$ 4,771,871</u>	<u>\$ 7,150,823</u>	<u>\$ 14,189,876</u>

8. Weighted Average Cost of Capital and Fair Return. Petitioner did not submit a study of its cost of common equity but Mr. Skomp argued that based on his thirty years of experience and prior common equity analysis, review of recent IURC findings of the cost of common equity in recent orders, and consideration of ASU’s size and construction program, he would conservatively estimate ASU’s cost of common equity at 11%. Petitioner’s Ex. No. 2, p. 18. Mr. Skomp did not provide any actual testimony or models to support his claims of an allegedly conservative cost of equity of 11.0%.

Mr. Skomp testified, in order to mitigate the rate impact ASU was willing to limit its cost of common equity to the cost rate on the proposed debt financing that is presently before us as a result of our consolidation Docket Entry. He testified that under no circumstances could the cost of equity be lower than the cost of debt. *Id.* He further testified that this willingness to limit the cost of equity was solely to maintain the rates at what he testified was an affordable level. If there were adjustments made which lowered the revenue requirement that would drive the residential monthly rate below the proposed revenue requirement, then the cost of common equity would need to be increased up to the level the evidence supports to offset whatever change is being made elsewhere to the revenue requirement. *Id.*, pp. 23-24.

OUCC witness Kaufman disagreed with Mr. Skomp’s recommendation of 11.0% as conservative. Through discovery, Mr. Kaufman was able to determine that Mr. Skomp based his cost of equity recommendation by reviewing commission orders in Indiana American Water 44450, Indiana Natural Gas, 44453, Twin Lakes Utilities, 44388, Pleasant View Utilities 44351-U & 44352-U and Pioneer Water 44309-U. Mr. Kaufman explained that none of the cases cited by Mr. Skomp had a cost of equity as high as 11.0%. He pointed out that four of the cases were settled, that three of them involved small utility filings and one of them was for a gas utility. Mr. Kaufman further explained that three of these cases were so small that the regulatory cost to challenge the utilities’ cost of equity outweighed any benefits. Public’s Exhibit No. 3, p. 4.

Mr. Kaufman disagreed with Mr. Skomp’s claim that ASU is much smaller than most other utilities for which there has been a recent common equity filing. Mr. Kaufman explained that Petitioner is only smaller than one of the cases (Indiana-American) used by Mr. Skomp to

make his cost of equity determination and in some cases the utilities reviewed by Mr. Skomp were much smaller. *Id.* at p. 5.

One of the orders reviewed by Mr. Skomp contained the Commission’s determination of the range of cost of equity for water and wastewater utilities. Mr. Kaufman cited to the Commission’s findings in Cause No. 44352-U, Pleasant View Utilities, where the Commission reviewed twenty four cases from October 2007 to the present. From their analysis the Commission found a range of cost of equity of 9/5% to 12.0%, with only one utility having a cost of equity above 11.0%. *Id.* at p. 7. For his estimation of cost of equity, Mr. Kaufman began with the Commission’s range of 9.5% - 11.0% as a starting point. Mr. Kaufman then testified that more current decisions such as Pleasant View, Cause No. 44352-U would indicate a high end of no more than 10.50%. Mr. Kaufman then explained that given the size of the utilities at the high end of the range, Petitioner should be at the low end of the range. Mr. Kaufman also discussed the spread between cost of debt and cost of equity should be considered when determining an authorized cost of equity. In Cause No. 44352-U the Commission authorized a cost of equity that lead to a 250 basis point spread between cost of equity and cost of debt. Mr. Kaufman noted that with the 5.91% cost of debt Petitioner anticipates the use of a 250 basis point spread would lead to an 8.41% cost of equity and using the 9.5% cost of equity recommended by Mr. Kaufman leads to a 350 basis point spread. Finally Mr. Kaufman supported his proposed cost of equity by noting that Petitioner consistently earned near or above its authorized 10.0% return on rate base and has averaged an 11.27% return on rate base. *Id.* at p. 8-9.

Petitioner did not challenge Mr. Kaufman’s cost of equity testimony in rebuttal and accepted it for purposes of calculating rates in this Cause. Accordingly, the evidence supports Mr. Kaufman’s recommended cost of equity of 9.5% and we find the appropriate authorized cost of equity for ASU is 9.5%.

The only other change to Petitioner’s weighted average cost of capital was the OUCC’s proposal to modify the capital structure so as to reclassify retained earnings corresponding to its request to treat tap fee revenues as additional CIAC. Because we have accepted the OUCC’s position on the tap fee revenue, we accept the proposed reclassification of retained earnings.

Based on these findings and after giving effect to the cost of common equity, we find that Petitioner’s capital structure and weighted cost of capital is as follows:

<u>Class of Capital</u>	<u>Pro Forma Amount</u>	<u>% of Total</u>	<u>(%) Cost</u>	<u>Weighted Cost</u>
Long-term debt (as authorized herein)	\$5,100,000	33.27%	5.91%	1.97%
Common equity (as of March 31, 2015)	<u>10,230,394</u>	<u>66.73%</u>	9.50%	<u>6.34%</u>
Total	<u>\$15,330,394</u>	<u>100.00%</u>		<u>8.31%</u>

9. Operating Results Under Present Rates.

A. Revenues.

Petitioner proposed in its case-in-chief *pro forma* operating revenues of \$2,944,464 at present rates as of March 31, 2015. Petitioner's Exhibit No. 2, Attachment JRS-1, Exhibit C. OUCC witness Patrick presented an adjustment to *pro forma* operating revenues to reflect customer growth during the period March 2015 through March 2016. Mr. Patrick normalized operating revenues for each customer class for the first twelve months of the test period (twelve months ending March 31, 2015) to calculate his first adjustment of \$47,080. Public's Exhibit 1, p. 9, Table CEP-5. He then calculated the increase in actual revenues for each customer class for the period January through October 2015 compared to actual revenues for the same period in 2014 and applied that growth rate for each customer class to test period revenues to determine projected revenues through March 31, 2016 for an adjustment totaling \$74,775. *Id.*, Table CEP-6; OUCC Schedule 5, Adjustments 5-8. In response to the Commission's Docket Entry questions issued March 8, 2016, the OUCC indicated that, "[r]ecognizing that Petitioner did not estimate any operating expense increases beyond March of 2016, Mr. Patrick did not seek to extend his projections of customer growth (revenue growth) beyond that time." Public's Exhibit No. 7, OUCC Response to Question C.4.

In his rebuttal testimony, Mr. Skomp indicated that for purposes of narrowing the number of items at issue in the case, ASU accepted Mr. Patrick's adjustments for customer growth through March 31, 2016. As discussed previously regarding CIAC and tap fees, Petitioner submitted revised schedules in response to the Commission's March 8, 2016 Docket Entry Questions reflecting *pro forma* operating revenues at present rates of \$3,161,319, which reflected Mr. Patrick's adjustments accepted by Mr. Skomp in rebuttal and the movement of connection fees above the line, as indicated in ASU's response to Question A.7. Petitioner's Exhibit No. 6, pp. 4-5 and Docket Entry Response Attachment A1-C.

We have already accepted OUCC's position regarding tap fees. As there are no remaining disputed issues concerning *pro forma* revenues and based upon the evidence, we find Petitioner's *pro forma* operating revenues at present rates to be \$3,066,319.

B. Operating Expenses. The Company proposed in its case-in-chief total *pro forma* Operating Expense (including depreciation, taxes and income taxes) of \$2,730,478, which did not include the after-tax impact of property taxes and depreciation expense on the Big 3. Petitioner's Exhibit No. 6, Docket Entry Response Attachment A1-A, p. 14. The OUCC proposed total Operating Expenses (including depreciation, taxes and income taxes) of \$2,296,946. Public's Exhibit No. 1, Schedule 4. The OUCC proposed adjustments to Petitioner's proposed expense levels for Salaries and Wages, 401K Match, Building Lease, Expense Normalization, Rate Case Expense, General Insurance, IURC Fees, Capitalized Items Expensed, Non-Recurring Items, Disallowed Expenses, Management Fees, Depreciation Expense and Tax Expense. On rebuttal, Petitioner accepted all of these adjustments except for the adjustment to the amortization of rate case expense, the OUCC's adjustments to depreciation expense and the OUCC's calculation of income and property taxes. These contested items are discussed below.

(1) Rate Case Expense.

Petitioner proposed to amortize rate case expense over a period of five (5) years. The OUCC proposed an amortization period of ten (10) years, citing the fact that it has been over sixteen (16) years since ASU's last base rate case. In rebuttal, Mr. Skomp testified that even the proposed five-year amortization period is lengthy, but appropriate given the hybrid test period in this case. However, he stated it is unreasonable to assume that ASU would be able to avoid another rate case for longer than five years.

Based on how long it has been since Petitioner's last rate case and Mr. Skomp's claim that ASU will need to be back for rates in five years it is difficult to determine the proper amortization period. This case with its hybrid test period culminating with phase III rates in 2018, provides an opportunity to amortize rate case expense over two years. A two year amortization period permits rate case expense to be fully recovered and then removed from Petitioner's Phase III rates. We reject both the OUCC's and Petitioner's recommendations for amortization of rate case expense. If Petitioner has not made its compliance filing for Phase III rates by June of 2018, Petitioner shall file an updated tariff and supporting documentation with the Commission and the OUCC removing rate case expense from rates.

(2) Depreciation Expense.

The difference between the parties related to depreciation expense is attributable to the OUCC's position concerning Utility Plant in Service as of March 31, 2015 and the amount of the major projects to include in Utility Plant in Service for Phase 1 through 3. Because we agree with the OUCC on both issues, we reject the Petitioner's position on depreciation expense. We find *pro forma* depreciation expense for Phase 1 to be \$190,373 (including depreciation expense on the Big 3). At Phase 2, *pro forma* depreciation is \$252,745. For Phase 3, the *pro forma* amount is \$482,518.

(3) CIAC Amortization.

In Cause No. 44593, we authorized ASU to begin amortizing CIAC as an offset to depreciation expense. The only dispute over the CIAC amortization related to the appropriate

balance of CIAC as of March 31, 2015. We have resolved that issue previously. Accordingly, we find that *pro forma* CIAC amortization to be \$65,818. This amount has been reflected as an offset in our finding on *pro forma* depreciation expense above. Phase II amortization of CIAC is \$70,350 and Phase III amortization of CIAC is \$76,899.

(4) Property Taxes.

For Phase I of the rates, Petitioner proposed to update its actual property tax expense during the twelve months ended March 31, 2015 with the additional property tax expenses that will be accrued on the Big 3 project that we have previously discussed. In other words, property tax expense would be adjusted for Phase I to include property tax expense accrued on the Big 3 sewer project. In Phase II, property tax expense would be adjusted to reflect additional accruals on the Klondike Interceptor and Phase I of construction of CETP-III, as well as the cost of chemical phosphorus treatment. Phase III would then include property tax expense accrued up to the remaining preapproved amount of CETP-III.

The OUCC proposed two adjustments to ASU's property tax expense. First, Mr. Patrick proposed to eliminate \$2,321.48 from 2014 property tax bills due to calculation issues, which Petitioner did not oppose. Second, at each Phase, Mr. Patrick proposed to reduce the adjustment to 2014 property tax expense based upon the "timing" of property tax assessments. Public's Exhibit No. 1, p. 28. Because property taxes are paid one year in arrears, Mr. Patrick proposed only to include property tax payments on the Construction Work in Progress for Big 3 in Phase I. He then proposed to include full property tax expense on the Big 3 and only Construction Work in Progress payments on the Phase 2 improvements in Phase II. Finally, for Phase III, he proposed to include full property tax payments on the Big 3 and Phase II improvements and but only property tax expense on the Construction Work in Progress for the Phase III improvements. *Id.* at pp. 28-31.

Petitioner opposed the OUCC's limitation based upon timing. Mr. Skomp testified that while property taxes are paid in arrears, the expense for property tax is accrued in the year of assessment. Accordingly, because the assessment date is now as of January 1 of the calendar year,¹¹ property tax expense on the Big 3 will be assessed at the end of 2016. Property tax expense will be assessed on Klondike and the Stage I CETP- III improvements at the end of 2016. Property tax expense will be assessed on the remaining CETP- III improvements at the end of 2018. Petitioner's Exhibit No. 2R, p. 33.

Here, all the property tax expense on Phase I and Phase II Plant will be assessed during the hybrid test period. The plant added for Phase III will not be completed and in service until well after the assessment date of January 1, 2018 thus this plant will not be assessed until January 1, 2019. Because there will not be an assessment on the Phase III plant additions until January 1, 2019 the property tax associated with Phase III should not be included in the revenue requirement. The amount of property tax associated for Phase III is limited to 10% of the work in progress amount. Accordingly, we modify the OUCC's proposed recommendation to reduce the property tax assessments on the major projects during the phase-in. *Pro forma* property tax

¹¹Ind. Code §6-1.1-3-22.5.

expense for Phase I is \$132,105. At Phase II, *pro forma* property tax expense is \$133,216. At Phase III, *pro forma* property tax expense is \$147,033.

(5) Federal and State Income Tax.

Petitioner's Witness Thieme testified that, due to cost increases resulting from the Affordable Care Act, federal income tax is reduced for ASU and its shareholder if ASU is a "C" Corporation.¹² As a result, ASU elected "C" corporation status beginning with the 2015 tax year. The only difference in either federal or state income tax expense for ratemaking purposes among the parties related to the *pro forma* net operating income at each phase and the appropriate federal income tax rate. The former issue flows through from our other findings in this Order. As to the latter, Mr. Skomp proposed to use the statutory federal income tax rates; Mr. Patrick instead proposed to use the effective tax rate. We would note that in this case Mr. Patrick used the statutory rate in the calculation of *pro forma* taxes but then used the effective tax rate in his calculation of taxes for each Phase as they were the same. Even if the rates are the same and using the effective tax rate would make the calculation simpler the statutory tax rate should be used. Given that the effective tax rate and the statutory tax rate are the same this has no effect on the tax numbers offered by Mr. Patrick.

We find *pro forma* federal and state income tax expense at present rates for Phase I to be \$281,701. Phases II and III will be calculated at the time of the submission of Petitioner's compliance filings for those phases.

10. Net Operating Income at Present Rates. Based upon the evidence and the determinations made above, we find Petitioner's adjusted operating results for Phase I under its present rates are as follows:

Operating Revenues	\$3,066,319
O&M Expenses	\$1,614,800
Depreciation/Amortization	\$139,198
Other Taxes	\$215,316
Federal & State Income Tax	\$377,256
Total Operating Expenses	\$2,346,570
Net Operating Income	\$719,749

In summary, we find that with appropriate adjustment for ratemaking purposes, Petitioner's annual net operating income under its present rates for wastewater service would be

¹² With public utilities that are S-corporations, the income tax expense recovery is based upon the income taxes paid by the shareholder on the corporate income. *Hamilton Southeastern Utils.*, Cause No. 43761, 2010 Ind. PUC LEXIS 282 (IURC Aug. 18, 2010), pp. 22-23, *61-63.

\$719,749. Petitioner has not proposed a fair value that differs from the net original cost of its rate base or a fair return that differs from its weighted average cost of capital. Based on our determination of net original cost of its rate base of \$2,721,593, a return of \$719,749 represents an over-recovery. We therefore find that Petitioner’s present rates are unreasonable and should be reduced.

11. Authorized Rate Increase For Phase I. On the basis of the evidence presented in these proceedings, we find that Petitioner shall decrease rates and charges to produce operating revenue in Phase I of \$385,090, or a 11.12% decrease in wastewater revenues, resulting in total annual operating revenue of \$2,725,343. This is the overall decrease we authorize based upon Petitioner’s rate base as of March 31, 2015 as adjusted for the Big 3 project. This revenue is reasonably estimated to afford Petitioner the opportunity to earn net operating income of \$294,876, as follows:

Operating Revenues	\$2,725,343
O&M Expenses	\$1,786,432
Depreciation/Amortization	\$190,373
Other Taxes	\$210,542
Federal & State Income Tax	\$139,581
Total Operating Expenses	\$2,326,928
Net Operating Income	\$398,415

12. Phase II and Phase III Process.

A. Evidence on the Phase II and Phase III Process

Petitioner proposed to include in rates its investment in completing the Klondike Road Project and improvements to its Carriage Estates Treatment Plant, including its standby chemical phosphorus upgrade, through subsequent phased-in rate increases. Petitioner’s witness Mr. Skomp proposed “compliance filings” to implement these increases. Mr. Skomp indicated that as part of ASU’s compliance filing rates would be adjusted to reflect “actual capital structure, actual customer count, actual accumulated depreciation and amortization of CIAC, and additional return, depreciation expenses, and taxes.” (*Id.*) ASU’s proposal for the phase-in is as follows: Step 2 of the rates will include the costs we have approved for inclusion previously in this Order for the Klondike Relocation Project and Stage I of the CETP-III upgrade. Stage I of CETP-III would include the cost of the chemical phosphorus removal as well as a new influent auxiliary manhole, a new effluent flow meter, a standby generator, a new influent sewage sampler, a new macerator structure with equipment, a new lift station, a new valve pit, and a temporary tie-in from the new lift station to the existing plant. Petitioner’s Ex. No. 6, Response B2. ASU proposes for Step 2 of its rates to adjust for additional return, depreciation expense and taxes (both property and income) for these rate base additions. Petitioner’s Ex. No. 2, pp. 7-8. In addition, ASU would update for actual accumulated depreciation, actual amortization of

CIAC, revenues from actual customer growth, and actual capital structure. *Id.* Step 3 would then adjust for these same elements and would be related to the remaining costs that we have approved for inclusion of the CETP-III upgrade -- \$8,024,800 (\$10,000,000 preapproved plus \$1,500,000 chemical phosphorus less the \$1,975,200 included in Step 2).

The OUCC also proposed a process to accomplish the phased-in increases. OUCC witness Charles Patrick explained that to the extent ASU seeks to include in rate base only the amounts preapproved by the Commission, the factual and legal issues involved before implementation of the next phase of rates should be fairly narrow. Those would include whether the preapproved plant was actually built, whether the project was placed in service, and whether the amounts of preapproved expenditures were actually incurred. He added, however that, to the extent ASU seeks to include in its compliance filings rate base amounts in excess of the preapproved amounts for the completed project, this would require evidence at that time and a hearing.

Mr. Patrick asserted the Stipulation and Settlement Agreements approved by the Commission in Cause No. 44272 contemplated such a process. He explained that ASU and the OUCC agreed ASU would receive preapproval of expenditures related to the projects up to certain amounts. He noted that the Agreements further provided that “to the extent actual costs exceed the agreed amounts, inclusions of such additional costs in rate base in future rate cases shall be addressed as other rate base additions that have not been preapproved, *viz.* in order to include the excess in rate base for ratemaking purposes, Petitioner will have the burden to demonstrate the excess was reasonable and was prudently incurred.” (Stipulation and Settlement Agreement (Klondike Road et.al.), pp. 2-3, Cause No. 44272) He noted that the Stipulation and Settlement Agreement on the CE-III Project included nearly identical language, but it added it will be ASU’s “burden to show that the amount charged by its affiliate is fair and reasonable and comparable to what an unaffiliated entity would have charged.” Cause No. 44272, p. 5, Stipulation and Settlement Agreement - Exhibit B, dated April 9, 2014.

Mr. Patrick stated that the Settlement Agreement assumes the proof will be provided once the projects will already have been completed. He asserted it is not contemplated by the agreements that ASU would have an opportunity to establish its rate base additions by filing *another* request for preapproval on these projects. In other words, ASU must make its case for its excess rate base after the projects have been completed. Mr. Patrick indicated that part of the consideration the OUCC received in exchange for its agreement for the approval of expenditures authorized by Cause No. 44272 is the opportunity to dispute excess expenditures after the plant additions have been completed.

Mr. Patrick said that an acceptable compliance filing should reflect Petitioner’s burden to prove its excess expenditures were reasonable and prudently incurred. He added that the OUCC would need a reasonable opportunity to investigate the expenditures and respond with its own proof on those discrete issues anticipated by the Stipulation and Settlement Agreements reached in Cause No. 44272. Mr. Patrick noted Mr. Skomp proposes to *update for actual capital structure, actual customer count, actual accumulated depreciation and amortization of CIAC, and additional return, depreciation expenses, and taxes.* Emphasis added. (*Id.*) Mr. Patrick did not agree it was appropriate or necessary to update for all of the things Mr. Skomp proposed to include. He said that the number of things that would be subject to updating would increase

controversy and make the compliance filings more like general rate cases, which, he noted, ASU said it was trying to avoid. (*Id.* at p.7)

Mr. Patrick acknowledged that the scope of review the OUCC proposes may require the filing of evidence and a hearing, but those matters to be addressed should be limited to one or two discrete rate base issues. More importantly, the Settlement Agreements reached between ASU and the OUCC in Cause No. 44272 establish that ASU has the burden of proof with respect to these issues *after* the expenditures have been made.

In order to include the excess expenditures in rate base for ratemaking purposes, Petitioner will have the burden to demonstrate its expenditures were reasonable and were prudently incurred.

(Stipulation and Settlement Agreement on the CE-III Project p. 5, emphasis added.)

Mr. Patrick noted that the process the OUCC proposes for updating ASU's rate base is very similar to the process the OUCC proposed in the Indiana-American Rate Case (Cause No. 44450), in which the Commission found in its pre-hearing conference order that rate base would be included in rates only once the plant was in service. In that Cause, the OUCC proposed a process that would update for all components of rate base, including CIAC and accumulated depreciation as well as the depreciation expense associated with the plant additions.

Mr. Patrick proposed Petitioner submit (1) updated plant-in-service by asset account incorporating the plant additions, (2) updated annual depreciation expense incorporating the eligible plant additions, (3) updated accumulated depreciation on Petitioner's authorized rate base, (4) revised revenue requirement, and (5) updated tariffs. He said Petitioner should also certify that the new plant is in service and verify the construction costs have been incurred and paid. He added that Petitioner should be prepared to provide invoices and other supporting documentation of the costs incurred and paid. Mr. Patrick said the value of Petitioner's asset additions should be limited to Petitioner's projected construction costs for each project as set forth in its case-in-chief. To the extent Petitioner's expenditures for the projects exceed the preapproved amount in Cause No. 44272, Petitioner should submit proof that such expenditures were reasonable and other proofs anticipated by the Stipulation and Settlement Agreements in Cause No. 44272.

In addition, Mr. Patrick testified the process should include a meaningful opportunity for the OUCC to conduct discovery and file evidence in response to whatever proof Petitioner provided that its expenditures were reasonable and prudent. He said a pre-hearing conference could establish the time frames but the OUCC should have no less than 60 days in which to conduct its review and file its evidence.

In ASU's rebuttal case, Mr. Skomp explained that with respect to CETP-III, ASU was no longer seeking to include, extra investment as needed to support the originally requested rate increase, but was limiting the request to include in rate base in this Cause the cost of CETP-III to the preapproved \$10,000,000 plus the costs needed so as to make the plant capable of treating

phosphorous, which are \$1,500,000. He explained that on Klondike, ASU is asking to include the additional costs up to the amount of the lowest competitive bid, an additional \$966,000.

B. Commission Discussion and Findings on Subsequent Phase Process

In our first rate case involving a forward looking test year under IC § 8-1-2-42.7 (Cause No. 44450), we found that plant additions may be included in rates only once the plant was in service. In this Cause, Petitioner proposed two compliance filings to take place once the plant additions have been placed in service. The OUCC responded stating what such compliance filings should include. Mr. Patrick said Petitioner should certify that the new plant is in service and verify the construction costs have been incurred and paid. Mr. Patrick said that to the extent Petitioner's expenditures for the projects exceed the amount pre-approved in Cause No. 44272, as part of its compliance filings Petitioner should submit proof that such expenditures were reasonable. He added that Petitioner should be prepared to provide invoices and other supporting documentation of the costs incurred and paid. Finally, Mr. Patrick said the value of Petitioner's asset additions should be limited to Petitioner's projected construction costs for each project as set forth in its case-in-chief. In Petitioner's rebuttal case, accounting witness Mr. Skomp said that in this case "ASU is essentially seeking preapproval of additional investment beyond what has already been preapproved." He indicated that now is the time to determine whether those additional amounts should be included in rate base.

In its case, the OUCC suggested that the Stipulation and Settlement Agreement reached in Cause No. 44272 precludes Petitioner from seeking additional preapproval. The OUCC noted that the Stipulation and Settlement Agreement provided that "to the extent actual costs exceed the agree amounts, inclusion of such additional costs in rate base in future rate cases shall be addressed as other rate base additions that have not been preapproved, viz. in order to include the excess in rate base for ratemaking purposes, Petitioner will have the burden to demonstrate the excess was reasonable and prudently incurred." (Stipulation and Settlement Agreement, p.3.) The OUCC asserted that this language contemplates that only after the plant has been completed would the request be made to authorize additional expenditures in rate base. The OUCC construed the Settlement Agreement to require Petitioner to have completed plant projects and placed them in service before requesting approval of rate base in excess of the amounts preapproved.

In exchange for its consent to preapproval of the amounts specified, as consideration the OUCC received an acknowledgment and commitment from ASU that it would have the burden to establish any excess expenditures on the plant it actually built was reasonable and was prudently incurred. The clear import of this language is that if ASU's actual construction costs exceed the amount preapproved, it must show the costs it actually incurred were reasonable and prudently incurred. But in this Cause, the additional or excess costs ASU seeks approval to include in rate base have not yet been incurred. Mr. Skomp noted in his rebuttal testimony that in this case "ASU is essentially seeking preapproval of additional investment beyond what has already been preapproved." The OUCC has suggested that, notwithstanding IC 8-1-2-42.7, ASU agreed in Cause No. 44272 that it would seek preapproval of excess expenditures in the manner indicated in that agreement, an opportunity to review expenditures after the expenditures had

been made and the plant was in service. The OUCC believes the agreement did not contemplate or authorize additional pre-approval applications and noted that the language of the agreement states that “To the extent actual costs exceed the agreed amounts, inclusion of such additional costs in rate base in future rate cases shall be addressed as other rate base additions that have not been pre-approved . . . Petition will have the burden to demonstrate the excess was reasonable and prudently incurred.” Stip. p.3. Certainly an actual cost is not “actual” until it has actually been incurred.

It is not necessary for this Commission to determine whether the agreement prohibits additional preapproval on those projects. ASU has filed a rate case in which it has asked us to allow recovery of rate base additions once they have been placed in service. The OUCC has proposed that, to the extent ASU seeks to include expenditures in rates in excess of what was preapproved in Cause No. 44272, it should provide proof that the excess expenditures were reasonable and were prudently incurred. Since we cannot allow the improvements in rate base until the costs have been incurred and the addition placed in service, it is reasonable to authorize the process the OUCC requests. Contrary to Petitioner’s suggestion, the post order process proposed by the OUCC is not inconsistent with IC § 8-1-2-42.7. That statute does not prohibit our issuing orders that allow us to review whether the actual expenditures incurred were reasonable and prudently incurred. Nor do we find that IC § 8-1-2-42.7 requires us to treat every forward-looking rate case as a preapproval case. A rate case is not an IC § 8-1-2-23 approval case. Moreover, given the complexities involved in predicting capital costs and the expedited nature of rate cases under IC § 8-1-2-42.7, construing the statute to require rate cases to also be preapproval cases (IC § 8-1-2-23) is simply not practical or fair to consumer parties. Without regard to any obligations imposed on ASU pursuant to Cause No. 44272, the OUCC has proposed a reasonable process for the introduction into rate base of expenditures that place plant into service after a final order has been issued in this Cause. We approve that process because it is a reasonable means of allowing wastewater utilities to supplement their rate base with specific plant additions while maintaining the public’s ability to protect itself from unreasonable or imprudent expenditures.

To that end, all of these projects, once completed, require (1) certification by ASU that the projects have been completed and are in service and (2) proof through appropriate documentation that costs associated with the project have been incurred and paid. Whether ASU should additionally provide proof that the expenditures it actually incurred were reasonable and were prudently incurred will depend on whether and to the extent Petitioner seeks to include expenditures in excess of what was preapproved in Cause No. 44272. We also agree that as part of its compliance filing Petitioner should update all components of rate base, including CIAC and accumulated depreciation as well as the depreciation expense associated with the plant additions. As such, ASU should also submit (1) updated plant-in-service by asset account incorporating the plant additions, (2) updated annual depreciation expense incorporating the eligible plant additions, (3) updated accumulated depreciation on Petitioner’s authorized rate base, (4) revised revenue requirement, and (5) updated tariffs. To the extent Petitioner has limited its rate base update to the amounts pre-approved in Cause No. 44272, the OUCC shall have 30 days in which to file any objection to the compliance filing. To the extent ASU’s compliance filing includes a request to include in rate base expenditures in excess of any pre-approved amount, ASU shall provide evidence that the excess expenditures were reasonable and prudently incurred. In such case, the OUCC shall have 30 days in which to request a procedural

schedule to establish appropriate filing and hearing dates. In no event may Petitioner seek to include in rate base expenditures in excess of the amounts represented in this Cause.

13. Financing – Cause No. 44700.

In its case-in-chief in Cause No. 44676, Petitioner indicated it would file a petition to seek approval of the \$5.1 million debt issuance included in the proposed *pro forma* capital structure at a rate of 5.91%. Petitioner’s Exhibit No. 2, p. 17. That petition was filed on October 30, 2015 under Cause No. 44700. That Cause was consolidated with Cause No. 44676 pursuant to Docket Entry issued January 20, 2016.

A. Evidence.

(1) ASU. Petitioner has sought approval to enter into a long-term credit facility (“Term Loan”) for an aggregate amount up to \$5,100,000 with a maturity date of up to thirty (30) years from the date of closing at a fixed interest rate of up to 7%. Mr. Skomp testified on behalf of ASU that the letter from the bank setting forth the terms of the proposed financing stated the annual interest rate would be 5.91% but that Petitioner requests approval of a maximum interest rate of 7% in order to allow for some flexibility if changes are needed prior to the closing of the proposed financing. The Term Loan will be guaranteed by Scott Lods and affiliated entities of Petitioner (“Guarantors”) and secured by (1) a lien on all business assets, machinery and equipment of Petitioner and the Guarantors, (2) a mortgage on the real property located at 3350 West 250 North, West Lafayette, Indiana, (3) a lien on the property to be financed by the Term Loan (including the improvements for which Petitioner received preapproval in Cause No. 44272), and (4) cross-collateralization with all other debt of the Guarantors with the Bank. After reimbursement of Petitioner’s treasury for monies expended for construction, completion, extension and improvement of Petitioner’s property and other lawful purposes, the net proceeds will be applied to Petitioner’s construction program.

Mr. Skomp sponsored the comparative balance sheet for ASU as of December 31, 2013 and 2014 as well as March 31, 2015. He also presented ASU’s comparative income statement for calendar years 2013 and 2014, as well as the twelve months ended March 31, 2015. Mr. Skomp testified the Term Loan is needed in order to fund a portion of the capital projects preapproved in Cause No. 44272. At the same time, the proposed financing will allow ASU to move away from a financial position of 100% equity capital on its books and records.

(2) OUCC. OUCC witness Kaufman presented testimony recommending the Commission grant Petitioner authority to issue its proposed debt subject to certain conditions and reporting requirements. He stated “the disclosed terms of the proposed debt issuances appear to be reasonable [and s]o long as Petitioner issues debt in the manner described in its testimony, the OUCC would have no objection to ASU’s proposed debt issuance.” Public’s Exhibit No. 4, pp. 3-4. However, he stated the OUCC wishes to reserve the right to challenge the prudence of any particular transaction Petitioner makes pursuant to the financing authority to be granted in this Cause. He further stated that the OUCC’s concurrence that the financing should be approved should not be construed as agreement that any of the projects or the cost of any projects paid for

by the borrowed funds should be considered prudent or reasonable. He recommended any unused borrowing authority approved in this Cause should expire on December 31, 2016. Mr. Kaufman also recommended ASU be required to provide notice to the Commission and the OUCC within thirty (30) days of issuance of the debt authorized in this proceeding. The notice he proposed would disclose the terms of the new loan. Mr. Kaufman also recommended ASU be required to provide to the OUCC and the Commission any annual reporting (excluding tax returns) that ASU is required to provide its lender. Moreover, he stated ASU should provide a copy of its Statement of Cash Flow in anticipation of its proposed debt issuance.

Finally, Mr. Kaufman testified that in order to comply with the Settlement Agreement approved in Cause No. 41254, ASU should be issuing somewhat more long term debt than it is proposing to issue in this Cause.

(3) ASU's Rebuttal. Mr. Skomp filed rebuttal testimony in which he stated ASU does not object to providing notice to the Commission and the OUCC within thirty (30) days of the issuance of the debt authorized in this proceeding, which notice would disclose the terms of the new loan. He also indicated ASU does not object to providing the Commission and the OUCC the annual reviewed financial statements of ASU required to be provided to the bank in connection with the financing. However, Mr. Skomp opposed Mr. Kaufman's other additional reporting requirements. In particular, he noted his concerns over any requirement that ASU be required to provide information to the Commission and the OUCC in the same level of detail as required by the lender, especially where much of that information likely would be confidential.

Mr. Skomp also took issue with Mr. Kaufman's reservation of the OUCC's right to challenge the issuance at a later time, unless the issuance were on terms other than as authorized by the Commission's order in this Cause. Mr. Skomp then explained why the OUCC's recommended expiration date for financing authority of December 31, 2016 is problematic. He proposed an expiration date of December 31, 2018 to allow sufficient time for all steps of the proposed rate increase in Cause No. 44676 to be completed.

In response to Mr. Kaufman's statements about the amount of long-term debt authority requested, Mr. Skomp explained that what ASU has presented for approval in this case is what it was able to negotiate with the bank. In response to the Commission's Docket Entry Questions issued March 8, 2016, Petitioner indicated that it desires to achieve a debt-to-equity ratio of 1:1 and will attempt to obtain commitments to further debt financing, for which it would then seek IURC approval. Petitioner's Exhibit No. 6, Response to Question A.10, p. 5.

B. Discussion and Findings. We find that Petitioner’s proposed financing as described herein is appropriate, and in the public interest. While we encourage Petitioner to pursue opportunities for additional long-term debt, the long-term debt authorized herein will move Petitioner toward a more reasonable ratio of debt to equity and will result in a more reasonable total outstanding capitalization in relation to the total value of Petitioner’s property and will not be in excess of the fair value of Petitioner’s property used and useful for the convenience of the public. The issuance of the long-term debt authorized herein is in accordance with the provisions of the laws of the State of Indiana relating to the issuance of securities by public utilities.

The conditions and reservations recommended by Mr. Kaufman are typical for financing petitions which seek approval of a financing program that will cover a period of years and an uncertain amount of debt issuances.¹³ In that context, such conditions make sense because we do not have an actual debt issuance before us to approve. Here we should have a discrete single debt issuance. However, Petitioner’s recommendation that it have an expiration date of December 31, 2018, more than 18 months from the date of a final order and more than 2 years from the date of its petition in this Cause, raises questions as to whether Petitioner will be able to issue debt on terms similar to that described in its direct testimony. The OUCC raises legitimate concerns and should have the right to challenge the prudence of the terms of the debt if they are materially different than those described in testimony. However, given the timing of this order, Petitioner should have 12 months from the date of this order (Phase I) to complete its proposed financing. Next, when Petitioner provides annual financial statements to its lender ASU shall also provide those statements to the Commission and the OUCC. Finally, because we have made the adjustment to capital structure recommended by the OUCC, Petitioner’s capital structure will move towards a more acceptable 40.0% debt. It is unreasonable and costly to ratepayers for Petitioner to maintain a capital structure of more than 60% equity. By the time of its next rate case, Petitioner’s proposed capital structure should have no more than 60.0% equity.

Therefore, we find Petitioner’s proposed financing program along with the OUCC’s reporting requirements should be approved and authorized by the Commission, and a Certificate of Authority should be issued to Petitioner granting the financing authority requested.

14. Infiltration and Inflow.

A. Evidence on Infiltration and Inflow

OUCC witness Parks recommended the Commission order ASU to develop a formal “I&I reduction program to identify I&I sources and address those sources in a cost effective manner.” Public’s Exhibit No. 2, p. 71. Mr. Parks maintained that Petitioner’s collection system suffers from excessive I&I, citing IDEM inspection reports as well as prior OUCC testimony in Cause

¹³ See, e.g., *Indiana Gas Co. d/b/a Vectren Energy Delivery of Ind.*, Cause No. 44546, 2015 Ind. PUC LEXIS 62 (IURC Mar. 4, 2016); *Indiana-American Water Co.*, Cause No. 44252, 2013 Ind. PUC LEXIS (IURC Jan. 9, 2013); *Indianapolis Power & Light Co.*, Cause No. 44364, 2013 Ind. PUC LEXIS 381 (IURC Dec. 18, 2013); *Indianapolis Power & Light Co.*, Cause No. 43565, 2009 Ind. PUC LEXIS 4 (IURC Jan. 7, 2009); *Indiana-American Water Co.*, Cause No. 43256, 2007 Ind. PUC LEXIS 192 (IURC June 27, 2007); and *Indiana-American Water Co.*, Cause No. 42412, 2003 Ind. PUC LEXIS 278 (IURC Sept. 3, 2003).

No. 44272. Mr. Parks testified that “[i]t does not appear ASU has *any* active or effective program to identify and remove I&I from its sewers.” *Id.*, p. 23. He also contends that ASU’s I&I has affected its plans to build additional treatment capacity at the Carriage Estates plant, causing it to build more than would otherwise be necessary. *Id.* He criticized the Company for having no inspection form for manholes and stated ASU does not appear to have the staff or outside consultants tasked with I&I reduction. *Id.*, p. 25. Mr. Parks also presented testimony on the diluted influent pollutant concentrations based on the Monthly Reports of Operation (MROs) for the Carriage Estates plant, which he stated supports his contention that I&I constitutes about half of the wastewater currently entering the plant. *Id.*, pp. 27-28. He then performed a calculation of base sanitary flows based upon his growth projections for ASU’s service area to arrive at his conclusion that the percentages of I&I he calculated for Carriage Estates (Table 6 at p. 31 of Public’s Exhibit No. 2) are “excessive.” Using his forecast of 20,322 people connected to Carriage Estates WWTP, which would produce an annual average daily flow of 2.66 MGD, he estimated I&I in 2030 will be 1.23 MGD. He explained this assumes that ASU’s I&I in its existing sewer system does not get better or worse.

Mr. Parks noted that in the last five years Petitioner has not conducted an I&I study or installed any temporary flow meters in the collection system to record wastewater flows. Mr. Parks noted ASU has not performed any smoke testing of its sewers to locate inflow sources in the last three years. Likewise, Petitioner has not conducted an influent flow study for the Carriage Estates and the County Home WWTPs, or conducted an influent flow study for individual lift stations. Petitioner has not identified any defects in specific manholes and sewer locations where infiltration and inflow is entering. Mr. Parks noted Petitioner does not have any plans to identify and reduce I&I in the next five years.

Mr. Parks acknowledged it is not possible to locate and remove *all* I&I. Every sewer system has varying amounts. But, he asserted, ASU’s I&I is excessive. Mr. Parks stated this excessive I&I can be reduced if ASU undertakes reasonable repair and maintenance practices. Mr. Parks recommended the IURC order ASU to improve upon the minimal levels of collection system maintenance and management through development and implementation of an ongoing I&I reduction program to identify I&I sources and address those sources in a cost effective manner.

Mr. Serowka asserted in his rebuttal that Mr. Parks’ calculations of base sanitary flow and I&I were flawed and did not properly follow the EPA method of calculating I&I despite Mr. Parks’ reference to the EPA guidance document attached to his testimony as Attachment JTP-4. Mr. Serowka asserted the EPA guidance recognizes only two methods for estimating base sanitary flows, neither of which is available for ASU. At the evidentiary hearing, Mr. Serowka testified that while some water usage data may be available from the water utility service provider, some of ASU’s customers are actually on private wells, where no such usage data would be available. He testified that ASU also does not have the data to estimate flows from midnight to 6 a.m. during a dry weather period of 7 to 14 days during seasonal high water. Nevertheless, using Mr. Parks’ estimated population for 2013 to estimate the population for 2014 and 2015, then adding population equivalents for customers that are not residential, Mr. Serowka calculated the Average Wet/Dry Weather Flow to apply the EPA’s screens to determine whether I&I merits further study. Petitioner’s Exhibit No. 1R, pp. 30-31. In doing so, Mr. Serowka found that while on the inflow side, ASU was below the EPA screening limit, on the infiltration side,

the data indicated that some flow monitoring in the collection system might be warranted to confirm what ASU believes to be the source of the I&I. *Id.*, p. 31. He opined that most of ASU's I&I comes from the ten percent (10%) of ASU's system that was in service twenty years ago. He then described some of the difficulties associated with remediating I&I in those parts of the system, due to the location of many of the lines that would have to be replaced (e.g., under car ports and storage sheds), and the fact that many of the homes were designed to drain their storm water into the sanitary sewer and there is not presently a storm water sewer available for them to replumb their drainage. *Id.*, pp. 32-38. He discussed ASU's lack of legal authority to force homeowners to replace their laterals or remove sump pumps, downspouts or other illegal connections, which would contribute to the I&I. Mr. Serowka also disagreed with Mr. Parks' reliance on IDEM inspection reports characterizing I&I as "excessive" and explained why he did not accept Mr. Parks' conclusion that the influent sewage at the Carriage Estates plant is diluted by clean water based on the weak pollutant concentrations. *Id.*, pp. 38-40.

B. Commission discussion and findings on Infiltration and Inflow

In its proposed order, ASU suggested it is unclear whether its I&I levels are excessive and what ASU should be doing to identify and reduce those levels. It seems clear enough that ASU has excessive I&I. Mr. Serowka may quibble with the OUCC about how precisely it performed its calculations. These criticism do not persuade us to ignore the reality of I&I at ASU. That ASU has excessive I&I is as clear as the water entering its treatment plants. Moreover, IDEM, a state agency tasked with being concerned about I&I, has found ASU has excessive I&I. And it is just as clear that ASU should be doing something about I&I to avoid a very expensive plant expansion. It is also clear that ASU does not seem to be doing anything to address I&I. In the last five years Petitioner has not conducted an I&I study or installed any temporary flow meters in the collection system to record wastewater flows. In the last three years, ASU has not performed any smoke testing of its sewers to locate inflow sources. Likewise, Petitioner has not conducted an influent flow study for the Carriage Estates and the County Home WWTPs, or conducted an influent flow study for individual lift stations. Petitioner has not identified any defects in specific manholes and sewer locations where infiltration and inflow is entering. Moreover, Petitioner does not have any plans to identify and reduce I&I in the next five years. During cross-examination by the OUCC, ASU's engineering witness Mr. Serowka testified he believed addressing I&I is an exercise in futility. Hr. Tr. A-84. Mr. Serowka asserted the EPA guidance recognizes only two methods for estimating base sanitary flows, neither of which is available for ASU. These two methods to which Mr. Serowka referred are flow meter data and water usage data. The latter would require meter usage information from Indiana-American. With respect to meter usage data, the evidence does not support Mr. Serowka's suggestion that the information is not available. In fact, on the stand Mr. Serowka acknowledged that information could be available. He simply did not know. Hr. Tr. A-76-78. The evidence suggests that instead of searching for sources of I&I, ASU is waiting for I&I to present itself to ASU.

While it is clear ASU has an I&I problem it has failed to tackle, a little less clear is what ASU should be doing to mitigate its I&I. In its proposed order it has proposed to perform flow monitoring with the installation of five flow meters to be monitored for one year to confirm what is believed to be the source of most of the I&I. While that may be a step in the right direction, we would also suggest Petitioner renew its smoke testing of sewers to locate inflow

sources, conduct influent flow studies of the Carriage Estates and the County Home WWTPs, and individual lift stations. Petitioner should also identify defects in specific manholes and sewer locations where infiltration and inflow is entering. Petitioner has also suggested we require a collaborative process with the OUCC to evaluate data. Ultimately, it is ASU's responsibility to maintain its collection system and implement a meaningful I&I program. We fear imposing a collaborative process on ASU and the OUCC would detract from our finding that ASU and only ASU has the responsibility to operate and maintain its own system and mitigate its excessive I&I.

15. Continuing Property Record.

Mr. Parks expressed concerns about the accuracy of Petitioner's records with respect to its assets in service. He recommended we order ASU to establish and maintain a Continuing Property Record ("CPR") system. Public's Exhibit No. 2, p. 11. On rebuttal, Mr. Serowka testified that he believed Petitioner's property records are materially accurate, with occasional discrepancies within a 10% range. He noted that Mr. Parks did not provide any evidence of what implementation of a CPR system would cost and stated he did not see what value such a system would provide. Nevertheless, Mr. Serowka presented a quote for implementation of such a system. Petitioner's Exhibit No. 1R, Attachment EJS-R13. The proposed cost was \$250,000. It would take 12 months to complete. Mr. Skomp recommended that if Mr. Parks' recommendation is accepted, the costs of establishing the CPR system be included in Step 3 rates. It would be capitalized as an addition to Utility Plant in Service. See Public's Ex. No. 1, pp. 16-17.

The evidence contains various numbers intended to represent the number of feet of pipe in ASU's collection system. While there are discrepancies making it difficult to ascertain the precise number of feet, we find that the range of results (other than those attributed to an erroneous discovery response that Petitioner corrected in a later response) do not vary by what we view as a material amount. In light of the evidence in the record of the estimated cost of implementing a more formal records system, we do not find that the likely benefit from such a system justifies the considerable cost. We reject the OUCC's recommendation to require ASU to implement a CPR system. While we don't think a continuing property record system is appropriate for this utility at this time, we have grave concerns with the recordkeeping of Petitioner. Petitioner was not able to provide the OUCC a list of assets. This is something that a properly run utility would be able to produce. Keeping records in boxes and expecting the OUCC to search through them is not appropriate. We find that Petitioner should create a list of its utility plant including date acquired, description of plant, and cost of plant that agrees with the general ledger. This can be accomplished using Excel or some other simple system. Petitioner shall include this list in its filing for Phase II.

16. Confidentiality. Petitioner filed a motion for protective order showing documents to be submitted to the Commission in response to certain Docket Entry questions were to be treated as confidential and protected from disclosure to the public under Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29. The Presiding Officers granted Petitioner's motion via Docket Entry dated October 28, 2015, finding such information to be preliminarily confidential after which such information was submitted under seal. We find all such information is confidential and is

exempt from public access and disclosure by the Commission under Ind. Code § 5-14-3-4 and Ind. Code § 8-1-2-29.

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

1. For Phase I rates, Petitioner shall be and hereby is authorized to adjust and decrease its rates and charges for sewer utility service to produce a decrease in total operating revenues of up to approximately 16.70% in accordance with the findings herein which rates and charges shall be designed to produce total annual operating revenues of up to \$2,554,284, which are expected to produce annual net operating income of up to \$387,975.

2. For Phase I rates, Petitioner shall file new schedules of rates and charges with the Water/Wastewater Division of the Commission on the basis set forth above. Such new schedules shall be effective upon approval by the Water/Wastewater Division and shall apply to sewer service from and after the date of approval.

3. Upon filing of the phase-in submission for Phase II and III, respectively, as described in Finding Paragraph No. 12, Petitioner shall be await OUCC review and Commission authority prior to implementation of second and third Phase increases authorized herein, on or after January 1, 2017 and July 1, 2018, respectively, with the Phase II increase calculated to produce total annual operating revenues of \$2,700,888 and total net operating income of \$489,954; and the Phase III increase calculated to produce total annual operating revenues of \$3,793,753 and total net operating income of \$1,064,202, with both Phases II and III further adjusted for additional revenues on an accrual basis, additional CIAC and amortization of such additional CIAC as an offset to depreciation expense from system development charges as described in Finding Paragraph No. 12. The new schedules of rates for Phases II and III shall each be effective upon approval by the Water/Wastewater Division and shall apply to sewer service from and after the date of approval.

4. Petitioner shall be and hereby is authorized to issue long-term debt on terms consistent with our findings above in this Cause and to use and apply the cash proceeds arising therefrom for the purposes stated we previously discussed. In particular, Petitioner is authorized, during the period expiring on the earlier of our Order in Petitioner's next financing case or December 31, 2016, to enter into a term credit facility in aggregate amount of up to \$5,100,000 with a maturity date of up to thirty (30) years from the date of closing at a fixed rate of interest of up to 7%. Such financing authority shall expire on December 31, 2016.

5. To the extent long-term debt issued pursuant to the authority granted herein is secured, Petitioner shall be and hereby is authorized to execute and deliver such mortgage, indenture and other evidence of encumbrance or lien on Petitioner's assets as necessary and appropriate to effectuate the issuance of secured long-term debt and thereby encumber Petitioner's assets. Petitioner is further authorized to execute and deliver promissory notes and other transaction documents and evidences of indebtedness as are necessary and appropriate to effectuate the issuance of such long-term debt.

6. There shall be and hereby is issued to Petitioner a Certificate of Authority for the issuance of securities, upon the terms and conditions, of the character, for the consideration, in the manner and for the purposes set forth in this Order.

7. Within thirty (30) days after issuance of the long-term debt, Petitioner shall submit a report to the Commission with a copy to the OUCC describing the terms of the financing. Petitioner shall also provide the Commission and the OUCC a copy of the documents it files with the lending organization, along with the annual reviewed financial statements required to be provided to Petitioner's lender in connection with the financing authorized herein.

8. The financing authority granted in this Order shall expire on the earlier of 12 months from the date of this order or the effective date of the order in Petitioner's next financing case, to the extent it has not been utilized by that date.

9. Petitioner shall improve upon its minimal levels of collection system maintenance and management through the development and implementation of an ongoing I&I reduction program to identify I&I sources and address those sources in a cost effective manner. This shall include but not be limited to establishing appropriate timeframes of flow monitoring and televising.

10. The information filed by Petitioner in this Cause pursuant to its Motion for Protection and Nondisclosure of Confidential and Proprietary Information is deemed confidential pursuant to Ind. Code § 5-14-3-4, is exempt from public access and disclosure by Indiana law, and shall be held confidential and protected from public access and disclosure by the Commission.

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

STEPHAN, HUSTON, WEBER AND ZIEGNER CONCUR:

APPROVED:

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

Mary M. Becerra
Secretary of the Commission

American Suburban Utilities, Inc.
 Summary of Invoices Provided
 DR 18-14 and Docket Entry Response March 14, 2016

	Contractor			Year / Date			Invoices				
							Supplied	Bid			
18-14 Attach 1				2000	Willowbrook L.S.	\$ 284,750.00	\$ -				
18-14 Attach 2		First Time		1999-2001	Country Estates 2 (CE-2)	2,375,526.90		2	2,372,066.57		
18-14 Attach 2	Bid	First Time		Dec 13, 2004	Lindberg Road Interceptor				\$ 1,170,000.00	N/A	
	Bid	Atlas		Dec 13, 2004	Lindberg Road Interceptor				1,177,300.00	N/A	
18-14 Attach 3		Various Vendors		2002	List of Vendor Costs	Meijer	498,747.36		498,747.36		
18-14 Attach 4		Various Vendors		2002	List of Vendor Costs	Morehouse Rd Interceptor	474,730.85		474,730.85		
18-14 Attach 5		Various Vendors		2003	List of Vendor Costs	Klondike Interceptor	1,635,348.40		1,635,348.40		
18-14 Attach 6		Vester		2009		Copper Beech	410,165.00		410,165.00	Contractor Letter	
18-14 Attach 7		Atlas		2009		Harrison Highland Sub-Div	750,300.00		750,300.00	Contractor Letter	
18-14 Attach 8		Milestone		2009		Winding Creek Phase 4	271,000.00		271,000.00	Contractor Letter	
18-14 Attach 9		Various Vendors		2011		US 231 Sewer Relocation	-	145,349.80			
18-14 Attach 10		Various Vendors		2011		US 231 Bypass	792,784.41	679,588.18			
18-14 Attach 11		Various Vendors		2005		Lindberg Interceptor	1,451,424.58		1,451,424.58		
18-14 Attach 12				2008		County Home 3			939,087.51		
18-14 Attach 13				2009		County Home 3			1,560,912.49		
18-14 Sup 1 Attach 1	Bid	Hannum		Not in Rate Base - Seworka p. 8		County Home III			2,517,000.00	N/A	
18-14 Sup 1 Attach 1	Bid	Shook, LLC		Not in Rate Base -		County Home III			3,661,000.00	N/A	
18-14 Sup 2 Attach 1		Mida Dev		2000		Willowbrook West One			256,429.20	Contractor Letter	
18-14 Sup 2 Attach 2		Titan		2000-2001		Meijer	380,000.00	380,000.00	380,000.00		
18-14 Sup 2 Attach 3		Titan/Vester		2001		Morehouse Interceptor		367,479.50			
18-14 Sup 2 Attach 4		Titan		2001	Exceeds Pre-approved	Klondike Road Inteceptor		1,444,140.00		Contractor Letter	
18-14 Sup 2 Attach 5		Various Vendors		2012		Cottages on Lindberg	272,112.04	272,112.04	11		
18-14 Sup 3		First Time		2000		County Home 2	1,030,100.00		1	1,030,100.00	
18-14 Sup 4		Alt & Witzig		1999		Carriage Estates 2		22,566.57			
18-14 Sup 4		First Time		1999-2001		Carriage Estates 2			2,349,500.00		
18-14 Sup 4		First Time		2004-2005		Lindberg Interceptor			1,170,000.00		
18-14 Sup 4		First Time		2007-2009		County Home 3			8	2,450,912.49	8
18-14 Sup 5		First Time		2011		231 Bypass				100,000.00	
				03/15/2001		Godwin 6" Pumpset w/John			3		
				03/03/2000		Deer 40450 Diesel Engine	23,923.89	23,923.89			
				02/19/2003		Case TH Cx80 L500	45,350.00	45,350.00	3		
						225kw Generator Sound Attenuated w/Trailer Dual Voltage	25,000.00	25,000.00	4		

American Suburban Utilities, Inc.
 Summary of Invoices Provided
 DR 18-14 and Docket Entry Response March 14, 2016

<u>Contractor</u>	<u>Year / Date</u>		<u>Invoices Supplied</u>	<u>Bid</u>
	09/30/2003	Backhoe Model 310SG Ser # T0310SG924411	67,250.00	67,250.00 5
	10/31/2003	2004 Cadillac Escalade Ser # 1GYEK63N54R102321		Traded 7/23/2010 6 26,288.00
	08/08/2003	2003 Ford Ranger Ser # 1FTYR10D03PB43916	15,620.00	6 Treating as traded, no detail
	08/08/2003	2003 Ford Ranger Ser # 1FTYR10D93PB34728	15,620.00	6 Treating as traded, no detail
	08/08/2003	2003 Ford Ranger Ser # 1FTYR10D83PB31819	15,620.00	6 Treating as traded, no detail
	08/08/2003	2003 Ford Ranger Ser # 1FTYR10D83PB27432	16,906.80	6 Treating as traded, no detail
	Unknown	2005 Cadillac Escalade Ser # 1GYEK63N45R114669		Traded 2/29/2008 9 at \$21,500
	11/15/2007	2008 Ford F350 Truck Ser # 1FDWW36R08ER03104	40,928.01	40,928.01 7
	12/11/2007	2008 Ford F150 Truck Ser # 1FTRF122X8KB55679	15,918.45	15,918.45 7
	11/20/2007	2005 Ford F250 Truck Ser # 1FDNF20518ER01368	26,056.21	26,056.21 7
	02/29/2008	2008 Cadillac Escalade Ser # 1GYFK66848R203124		Traded 7/23/2010 9 at \$46,745.58
	07/23/2010	2010 Cadillac Escalade Ser # 1GYUKJEF6AR2444385	51,355.60	51,355.60 10
Possible G/L Items				
Total Invoices Supplied for the End of the Test Period March 31, 2015 Not Including CWIP				<u>\$ 3,607,018.25</u>

- 1 Response to March 8, 2016 Docket Entry A6 Attachment A
- 2 Response to March 8, 2016 Docket Entry A6 Attachment B
- 3 Response to March 8, 2016 Docket Entry A6 Attachment C
- 4 Response to March 8, 2016 Docket Entry A6 Attachment D
- 5 Response to March 8, 2016 Docket Entry A6 Attachment D - Backhoe in L-3 Corporation
- 6 Response to March 8, 2016 Docket Entry A6 Attachment E
- 7 Response to March 8, 2016 Docket Entry A6 Attachment F
- 8 Response to March 8, 2016 Docket Entry A6 Attachment G - Petitioner has not asked for CH-3 to go into rate base
- 9 Response to March 8, 2016 Docket Entry A6 Attachment H
- 10 Response to March 8, 2016 Docket Entry A6 Attachment I
- 11 Response to March 8, 2016 Docket Entry A6 Attachment J

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

**Comparison of Petitioner's and OUCC's
Revenue Requirements - Overall**

	<u>Per Petitioner</u>	<u>Per OUCC</u>	<u>Sch Ref</u>	<u>OUCC More (Less)</u>
Original Cost rate Base	\$ 22,399,729	\$ 14,189,876	8	\$ (8,209,853)
Times: Weighted Cost of Capital	8.31%	8.07%	9	-0.24%
Net Operating Income Required for Return on Rate base	1,861,417	1,145,123		(716,294)
Add: Annual Depreciation Expense	417,903 ¹			(417,903)
Property Tax Expense	145,502 ¹			(145,502)
Less: Adjusted Net Operating Income	670,177	620,728	4	(49,449)
Net Revenue Requirement	1,754,645	524,395		(1,230,250)
Gross Revenue Conversion Factor	137.9300%	164.6917%		26.7617%
Recommended Revenue Increase	<u>\$ 2,420,259</u>	<u>\$ 863,634</u>		<u>\$ (1,556,625)</u>
Recommended Percentage Increase	<u>79.31%</u>	<u>27.98%</u>		<u>-51.32%</u>

<u>Flat Fee</u>	<u>Proposed</u>		<u>OUCC More (Less)</u>
	<u>Petitioner</u>	<u>OUCC</u>	
Current Rate = \$47.50	\$ 85.18	\$ 60.80	\$ (24.38)

¹ Annual Depreciation Expense and Property Tax Expense were shown on the Attachment JRS-1, p. 15 of 22. The more appropriate location would be within the *pro forma* adjustments to arrive at an annual revenue requirement. See OUCC Schedule 4.

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

**Comparison of Petitioner's and OUCC's
 Revenue Requirements by Phase**

	Phase I				Phase II				Phase III			
	Per Petitioner	Per OUCC	Sch Ref	OUCC More (Less)	Per Petitioner	Per OUCC	Sch Ref	OUCC More (Less)	Per Petitioner	Per OUCC	Sch Ref	OUCC More (Less)
Original Cost rate Base	\$10,093,008	\$ 4,771,871	8	\$ (5,321,137)	\$13,591,569	\$ 7,150,823	8	\$ (6,440,746)	\$22,399,729	\$ 14,189,876	8	\$ (8,209,853)
Times: Weighted Cost of Capital Return on Rate base	8.31%	8.07%	9	-0.24%	8.31%	8.07%	9	-0.24%	8.31%	8.07%	9	-0.24%
Net Operating Income Required	838,729	385,090		(453,639)	1,129,459	577,071		(552,388)	1,861,417	1,145,123		(716,294)
Add: Annual Depreciation Expense	87,500 ¹	-		(87,500)	92,283 ¹	-		(92,283)	238,120	-		(238,120)
Property Tax Expense	30,541 ¹	-		(30,541)	31,797 ¹	-		(31,797)	83,164	-		(83,164)
Less: Adjusted Net Operating Income	670,177	592,129	4	(78,048)	838,729	374,434	4	(464,295)	1,463,306	619,710	4	(843,596)
Net Revenue Requirement	286,593	(207,039)		(493,632)	414,810	202,637		(212,173)	719,395	525,413		(193,982)
Gross Revenue Conversion Factor	125.0000%	164.6917%		39.6917%	136.4256%	164.6917%		28.2661%	136.0544%	164.6917%		28.6373%
Recommended Revenue Increase	<u>\$ 358,241</u>	<u>\$ (340,976)</u>		<u>\$ (699,217)</u>	<u>\$ 565,907</u>	<u>\$ 333,727</u>		<u>\$ (232,180)</u>	<u>\$ 978,769</u>	<u>\$ 865,312</u>		<u>\$ (113,457)</u>
Recommended Percentage Increase	<u>11.74%</u>	<u>-11.12%</u>		<u>-22.86%</u>	<u>17.56%</u>	<u>12.25%</u>		<u>-5.31%</u>	<u>36.50%</u>	<u>28.29%</u>		<u>-8.21%</u>
Accumulative Rate Increase	11.74%	-11.12%		-22.86%	31.36%	-0.24%		-31.60%	79.31%	27.98%		-51.32%

Flat Fee	Proposed			Proposed			Proposed		
	Petitioner	OUCC	OUCC More (Less)	Petitioner	OUCC	OUCC More (Less)	Petitioner	OUCC	OUCC More (Less)
Current Rate = \$47.50	\$ 53.08	\$ 42.22	\$ (10.86)	\$ 62.40	\$ 47.39	\$ (15.01)	\$ 85.18	\$ 60.80	\$ (24.38)

¹ Annual Depreciation Expense and Property Tax Expense were shown on the Attachment JRS-1, p. 15 of 22. The more appropriate location would be within the *pro forma* adjustments to arrive at an annual revenue requirement. See OUCC Schedule 4.

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Gross Revenue Conversion Factor

	Phase I		Phase II		Phase III	
	Per OUCC		Per OUCC		Per OUCC	
1 Gross Revenue Change	100.0000%	\$ (340,976)	100.0000%	\$ 333,727	100.0000%	\$ 865,312
2 Less: Bad Debt Rate	<u>0.0000%</u>	-	<u>0.0000%</u>	-	<u>0.0000%</u>	-
3 Sub-total	100.0000%		100.0000%		100.0000%	
4 Less: IURC Fee	<u>0.1077802%</u>	(368)	<u>0.1077802%</u>	360	<u>0.1077802%</u>	933
5 Income Before State Income taxes	99.89222%		99.89222%		99.89222%	
6 Less: State Income Tax (6.5% of Line 5)	6.4930%		6.4930%		6.4930%	
7 Utility Receipts Tax (1.4% of Line 3)	<u>1.4000%</u>	(4,774)	<u>1.4000%</u>	4,672	<u>1.4000%</u>	12,114
8 Income before Federal income Taxes	91.9992%		91.9992%		91.9992%	
9 Less: Federal income Tax (29% of Line 8)	<u>31.2797%</u>		<u>31.2797%</u>		<u>31.2797%</u>	
10 Change in Operating Income	<u>60.7195%</u>		<u>60.7195%</u>		<u>60.7195%</u>	
11 Gross Revenue Conversion Factor	<u>164.6917%</u>		<u>164.6917%</u>		<u>164.6917%</u>	

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

CAUSE NUMBER 44676
Pro-forma Present Rates

	Phase I			Phase II			Phase III		
	Per Petitioner	Per OUCC	OUCC More (Less)	Per Petitioner	Per OUCC	OUCC More (Less)	Per Petitioner	Per OUCC	OUCC More (Less)
Operating Revenues									
Unmetered Sewer Revenues									
Unmetered Residential	\$ -	\$ 80,877	\$ 80,877	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unmetered Commercial	-	3,370	3,370	-	-	-	-	-	-
Unmetered Multi-Family	-	18,033	18,033	-	-	-	-	-	-
Metered Sewer Revenues									
Metered Commercial	-	18,737	18,737	-	-	-	-	-	-
Metered Multi-Family	-	838	838	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total Operating Revenues	-	121,855	121,855	-	-	-	-	-	-
O&M Expense									
Salaries and Wages	57,622	(100,841)	(158,463)	-	-	-	-	-	-
401K Match	1,343	(1,434)	(2,777)	-	-	-	-	-	-
Building Lease	52,100	52,100	-	-	-	-	-	-	-
Expense Normalization	-	8,103	8,103	-	-	-	-	-	-
Rate Case Expense	86,000	215,000	129,000	-	-	-	-	(215,000)	(215,000)
General Insurance	5,865	860	(5,005)	-	-	-	-	-	-
IURC Fee	575	706	131	-	-	-	-	-	-
Capitalized Items Expensed	-	(84,550)	(84,550)	-	-	-	-	-	-
Non-Recurring Items	-	(57,257)	(57,257)	-	-	-	-	-	-
Non-Allowed Items	-	(9,253)	(9,253)	-	-	-	-	-	-
Management Fees	-	(156,006)	(156,006)	-	-	-	-	-	-
Depreciation Expense	(111,654)	(322,183)	(210,529)	-	66,904	66,904	-	236,312	236,312
Amortization of CIAC	(164,764)	(65,818)	98,946	-	(4,532)	(4,532)	-	(6,549)	(6,549)
Taxes Other than Income:									
Payroll Tax	(9,373)	(15,715)	(6,342)	-	-	-	-	-	-
Property Tax	(8,440)	9,649	18,089	-	1,111	1,111	-	13,817	13,817
Utility Receipts Tax	8,766	10,472	1,706	-	-	-	-	-	-
Income Taxes:									
State Income Tax	11,681	47,821	36,140	-	(7,973)	(7,973)	-	(12,880)	(12,880)
Federal Income Tax	48,781	233,880	185,099	-	(31,529)	(31,529)	-	14,521	14,521
Total Operating Expenses	(21,498)	(234,466)	(212,968)	-	23,981	23,981	-	30,221	30,221
Net Operating Income	\$ 21,498	\$ 356,321	\$ 334,823	\$ -	\$ (23,981)	\$ (23,981)	\$ -	\$ (30,221)	\$ (30,221)

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

COMPARATIVE BALANCE SHEET AS OF

<u>ASSETS</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Utility Plant - Sewer			
Utility Plant in Service	\$ 18,628,559	\$ 18,622,850	\$ 18,546,213
Construction Work in Progress	3,057,687	2,684,406	615,522
Less: Accumulated Depreciation	(5,104,584)	(4,997,065)	(4,521,042)
Sewer - Net Utility Plant in Service	<u>16,581,662</u>	<u>16,310,191</u>	<u>14,640,693</u>
Utility Plant - Water			
Utility Plant in Service	243,693	243,693	243,693
Less: Accumulated Depreciation	(149,492)	(149,492)	(155,660)
Water - Net Utility Plant in Service	<u>94,201</u>	<u>94,201</u>	<u>88,033</u>
Current Assets			
Cash and Cash Equivalents	168,663	23,176	25,314
Accounts Receivable	50,938	59,398	72,598
Materials and Supplies			
Prepays			
Other Current Assets			
Total Current Assets	<u>219,601</u>	<u>82,574</u>	<u>97,912</u>
Deferred Debits			
Bond Issuance Costs, net			
Other Deferred Debits			
Total Deferred Debits	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 16,895,464</u>	<u>\$ 16,486,966</u>	<u>\$ 14,826,638</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

COMPARATIVE BALANCE SHEET

<u>LIABILITIES</u>	March 31, 2015	December 31, 2014	December 31, 2013
Equity			
Common Stock	\$ 15,814	\$ 15,814	\$ 15,814
Additional Paid in Capital	4,131,000	3,933,000	3,933,000
Unappropriated Retained Earnings	5,871,550	5,342,232	3,248,848
Current Year Net Income - Sewer	204,342	540,470	836,291
Current Year Net Income - Water	7,688	(12,151)	3,450
Total Equity	<u>10,230,394</u>	<u>9,819,365</u>	<u>8,037,403</u>
Contributions in Aid of Construction - Sewer	6,590,571	6,589,169	6,554,400
Contributions in Aid of Construction - Water	25,818	25,818	25,818
Net Contributions in Aid of Construction	<u>6,616,389</u>	<u>6,614,987</u>	<u>6,580,218</u>
Long-term Debt			
Bonds Payable - Series A			
Bonds Payable - Series B			
Notes Payable			
Lease Payable			
Total Long-term Debt	<u>-</u>	<u>-</u>	<u>-</u>
Current Liabilities			
Accounts Payable			
Advances for Construction	37,900	37,150	159,321
Accrued Interest			
Accrued Wages	6,941	(2,234)	3,713
Accrued Taxes	303	299	344
Miscellaneous Current and Accrued Liabilities	3,537	17,399	45,639
Other Current Liabilities	<u>48,681</u>	<u>52,614</u>	<u>209,017</u>
Total Liabilities	<u>\$ 16,895,464</u>	<u>\$ 16,486,966</u>	<u>\$ 14,826,638</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

COMPARATIVE INCOME STATEMENT
Twelve Months Ended

	March 31, 2015	December 31, 2014	December 31, 2013
Operating Revenues			
Unmetered Sewer Revenues			
Unmetered Residential	\$ 1,208,793	\$ 1,198,228	\$ 1,159,837
Unmetered Commercial	179,825	178,092	175,884
Unmetered Multi-Family Dwellings	1,448,852	1,448,831	1,450,187
Metered Sewer Revenues			
Metered Commercial	74,943	71,778	67,059
Metered Multi-Family Dwellings	17,376	16,209	17,722
Penalties	14,675	14,113	10,804
Other - Connection Revenues	95,000	104,120	70,680
Total Operating Revenues	<u>3,039,464</u>	<u>3,031,371</u>	<u>2,952,173</u>
Operating Expenses			
Salaries and Wages	602,666	514,421	424,633
Employee Benefits	57,621	66,268	73,487
Purchased Power	159,412	137,643	112,298
Chemicals	27,455	25,750	12,777
Materials and Supplies	208,933	252,427	126,236
Contractual Services	658,426	601,279	541,574
Repairs and Maintenance	32,801	30,636	27,551
Rental Expense	3,733	31,895	32,306
Transportation Expenses	7,995	6,997	3,646
Insurance	24,348	23,790	14,459
License and Fees	28,834	19,895	16,553
Supplies Shop and Office	23,131	15,297	14,002
Postage and Collection Fees	15,292	11,916	8,583
Miscellaneous Expense	68,725	69,559	45,025
Total O&M Expense	<u>1,919,372</u>	<u>1,807,773</u>	<u>1,453,130</u>
Depreciation Expense	578,374	469,855	460,064
Taxes Other than Income:			
Payroll Tax	56,012	47,886	37,191
Property Tax	122,456	122,456	123,754
Utility Receipts Tax	32,442	42,931	41,743
Income Taxes:			
State Income Tax			
Federal Income Tax			
Total Operating Expenses	<u>2,708,656</u>	<u>2,490,901</u>	<u>2,115,882</u>
Net Operating Income	330,808	540,470	836,291
Other Income (Expense)			
Interest Income			
Gain (Loss) on Sale of Assets			
Other Income - Connection Fees			
Interest Expense			
Total Other Income (Expense)	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	<u>\$ 330,808</u>	<u>\$ 540,470</u>	<u>\$ 836,291</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(1)

Normalize Unmetered Residential Sewer Revenue

To normalize General Ledger Account 4020, Unmetered Residential, customer growth during the test year.

	<u>Number of Customers</u>	<u>Customer Growth</u>	<u>Remaining Billings</u>	<u>Additional Annual Billings</u>	<u>Account 4020 Monthly Sales</u>
Apr 2014	2,105				\$99,539.15
May 2014	2,104	(1)	1	(1)	99,572.39
Jun 2014	2,122	18	2	36	99,252.56
Jul 2014	2,098	(24)	3	(72)	98,984.81
Aug 2014	2,153	55	4	220	101,361.54
Sep 2014	2,143	(10)	5	(50)	100,193.05
Oct 2014	2,125	(18)	6	(108)	100,405.22
Nov 2014	2,137	12	7	84	100,832.40
Dec 2014	2,157	20	8	160	101,192.17
Jan 2015	2,152	(5)	9	(45)	102,246.67
Feb 2015	2,171	19	10	190	102,477.51
Mar 2015	2,183	12	11	132	102,735.92
Totals	<u>25,650</u>	<u>78</u>		<u>546</u>	<u>1,208,793.39</u>
Monthly Flat Rate Sewer Rate					\$ 47.50
Times: Additional Customer Billings					<u>546</u>
			Adjustment Increase (Decrease)		<u>\$ 25,935</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Pro-forma Net Operating Income Statement - Phase I

	Year Ended 3/31/2015	<i>Pro forma</i> Adjustments	Sch Ref	Mar 2016 <i>Pro-forma</i> Present Rates	Adjustments	Sch Ref	Mar 2016 <i>Phase I</i> Proposed Rates
Operating Revenues							
Unmetered Sewer Revenues							
Unmetered Residential	\$ 1,208,793	\$ 25,935	5-1	\$ 1,289,670	\$ (143,411)	1	\$ 1,146,259
		54,942	5-5				
Unmetered Commercial	179,825	3,370	5-2	183,195	(20,371)	1	162,824
Unmetered Multi-Family	1,448,852	16,180	5-3	1,466,885	(163,118)	1	1,303,767
		1,853	5-6				
Metered Sewer Revenues							
Metered Commercial	74,943	1,595	5-4	93,680	(10,417)	1	83,263
		17,142	5-7				
Metered Multi-Family	17,376	838	5-8	18,214	(2,025)	1	16,189
Penalties	14,675			14,675	(1,634)	1	13,041
Other - Connection Revenues	-			-			-
Total Operating Revenues	<u>2,944,464</u>	<u>121,855</u>		<u>3,066,319</u>	<u>(340,976)</u>		<u>2,725,343</u>
O&M Expense							
O&M Expense	1,919,372			1,786,800			1,786,432
Salaries and Wages		(100,841)	6-1				
401K Match		(1,434)	6-2				
Building Lease		52,100	6-3				
Expense Normalization		8,103	6-4				
Rate Case Expense		215,000	6-5				
General Insurance		860	6-6				
IURC Fee		706	6-7		(368)	1	
Capitalized Items Expensed		(84,550)	6-8				
Non-Recurring Items		(57,257)	6-9				
Disallowed Expenses		(9,253)	6-10				
Management Fee		(156,006)	6-11				
Depreciation Expense	578,374	(379,198)	6-12	256,191			256,191
		57,015	6-13				
Amortization of CIAC		(65,818)	6-14	(65,818)			(65,818)
Taxes Other than Income:							
Payroll Tax	56,012	(15,715)	7-1	40,297			40,297
Property Tax	122,456	9,649	7-2	132,105			132,105
Utility Receipts Tax	32,442	10,472	7-3	42,914	(4,774)	1	38,140
Income Taxes:							
State Income Tax	-	47,821	7-4	47,821	(22,140)	7-6	25,681
Federal Income Tax	-	233,880	7-5	233,880	(119,980)	7-7	113,900
Total Operating Expenses	<u>2,708,656</u>	<u>(234,466)</u>		<u>2,474,190</u>	<u>(147,262)</u>		<u>2,326,928</u>
Net Operating Income	<u>\$ 235,808</u>	<u>\$ 356,321</u>		<u>\$ 592,129</u>	<u>\$ (193,714)</u>		<u>\$ 398,415</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Pro-forma Net Operating Income Statement - Phase II

	Mar 2016 <i>Phase I</i>			Dec 2016 <i>Phase II</i>			Dec 2016 <i>Phase II</i>		
	Proposed Rates	<i>Pro forma</i> Adjustments	Sch Ref	<i>Pro forma</i> Rates	Adjustments	Sch Ref	Proposed Rates		
Operating Revenues									
Unmetered Sewer Revenues									
Unmetered Residential	\$ 1,146,259			\$ 1,146,259	\$ 140,363	1	\$ 1,286,622		
Unmetered Commercial	162,824			162,824	19,938	1	182,762		
Unmetered Multi-Family	1,303,767			1,303,767	159,650	1	1,463,417		
Metered Sewer Revenues									
Metered Commercial	83,263			83,263	10,196	1	93,459		
Metered Multi-Family	16,189			16,189	1,982	1	18,171		
Penalties	13,041			13,041	1,598	1	14,639		
Other - Connection Revenues	-			-			-		
Total Operating Revenues	<u>2,725,343</u>	<u>-</u>		<u>2,725,343</u>	<u>333,727</u>		<u>3,059,070</u>		
O&M Expense	1,786,432			1,786,432			1,786,792		
Salaries and Wages		-							
401K Match									
Building Lease									
Rate Case Expense									
General Insurance									
IURC Fee					360	1			
Depreciation Expense	256,191	66,904	6-15	323,095			323,095		
Amortization of CIAC	(65,818)	(4,532)	6-17	(70,350)			(70,350)		
Taxes Other than Income:									
Payroll Tax	40,297			40,297			40,297		
Property Tax	132,105	1,111	7-8	133,216			133,216		
Utility Receipts Tax	38,140			38,140	4,672	1	42,812		
Income Taxes:									
State Income Tax	25,681	(7,973)	7-9	17,708	21,669	7-11	39,377		
Federal Income Tax	113,900	(31,529)	7-10	82,371	31,529	7-12	113,900		
Total Operating Expenses	<u>2,326,928</u>	<u>23,981</u>		<u>2,350,909</u>	<u>58,230</u>		<u>2,409,139</u>		
Net Operating Income	<u>\$ 398,415</u>	<u>\$ (23,981)</u>		<u>\$ 374,434</u>	<u>\$ 275,497</u>		<u>\$ 649,931</u>		

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Pro-forma Net Operating Income Statement - Phase III

	Dec 2016 <i>Phase II</i> Proposed Rates	<i>Pro forma</i> Adjustments	Sch Ref	Dec 2016 <i>Phase III</i> <i>Pro forma</i> Rates	Adjustments	Sch Ref	Jun 2018 <i>Phase III</i> Proposed Rates
Operating Revenues							
Unmetered Sewer Revenues							
Unmetered Residential	\$ 1,286,622			\$ 1,286,622	\$ 363,944	1	\$ 1,650,566
Unmetered Commercial	182,762			182,762	51,698	1	234,460
Unmetered Multi-Family	1,463,417			1,463,417	413,954	1	1,877,371
Metered Sewer Revenues							
Metered Commercial	93,459			93,459	26,437	1	119,896
Metered Multi-Family	18,171			18,171	5,140	1	23,311
Penalties	14,639			14,639	4,139	1	18,778
Other - Connection Revenues	-			-			-
Total Operating Revenues	<u>3,059,070</u>	<u>-</u>		<u>3,059,070</u>	<u>865,312</u>		<u>3,924,382</u>
O&M Expense	1,786,792			1,571,792			1,572,725
Salaries and Wages							
401K Match							
Building Lease							
Rate Case Expense		(215,000)					
General Insurance							
IURC Fee					933	1	
Depreciation Expense	323,095	236,312	6-18	559,407			559,407
Amortization of CIAC	(70,350)	(6,549)	6-20	(76,899)			(76,899)
Taxes Other than Income:							
Payroll Tax	40,297			40,297			40,297
Property Tax	133,216	13,817	7-13	147,033			147,033
Utility Receipts Tax	42,812			42,812	12,114	1	54,926
Income Taxes:							
State Income Tax	39,377	(12,880)	7-14	26,497	56,184	7-16	82,681
Federal Income Tax	113,900	14,521	7-15	128,421	(14,521)	7-17	113,900
Total Operating Expenses	<u>2,409,139</u>	<u>30,221</u>		<u>2,439,360</u>	<u>54,710</u>		<u>2,494,070</u>
Net Operating Income	<u>\$ 649,931</u>	<u>\$ (30,221)</u>		<u>\$ 619,710</u>	<u>810,602</u>		<u>1,430,312</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(2)

Normalized Unmetered Commercial Revenue

To normalize General Ledger Account 4040, Unmetered Residential, customer growth during the test year.

	<u>Number of Customers</u>	<u>Customer Growth</u>	<u>Remaining Billings</u>	<u>Additional Annual Billings</u>	<u>Account 4040 Monthly Sales</u>
Apr 2014	23				\$14,704.54
May 2014	23	-	1	-	14,704.54
Jun 2014	23	-	2	-	14,704.54
Jul 2014	23	-	3	-	14,704.54
Aug 2014	23	-	4	-	14,704.54
Sep 2014	23	-	5	-	14,704.54
Oct 2014	23	-	6	-	15,266.22
Nov 2014	23	-	7	-	15,266.22
Dec 2014	23	-	8	-	15,266.22
Jan 2015	23	-	9	-	15,266.22
Feb 2015	23	-	10	-	15,266.22
Mar 2015	23	-	11	-	15,266.22
Totals	<u>276</u>	<u>0</u>		<u>0</u>	<u>\$ 179,824.56</u>

New Test Year Unmetered Sewer Revenues Per Month	\$ 15,266.22
Multiplied By Twelve Months to annualize	<u>12</u>

<i>Pro forma</i> Unmetered Commercial Revenues	\$ 183,195
Less: Test Year	<u>179,825</u>

Adjustment Increase (Decrease) \$ 3,370

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(3)

Normalize Unmetered Multi-Family Revenue

To normalize General Ledger Account 4030, Unmetered Multi-Family (Multi-Family and Mobile Homes), customer growth during the test year.

	<u>Number of Customers</u>	<u>Customer Growth</u>	<u>Remaining Billings</u>	<u>Additional Annual Billings</u>	<u>Account 4030 Monthly Sales</u>
Apr 2014	250				\$122,302.27
May 2014	247	(3)	1	(3)	120,506.54
Jun 2014	247	-	2	-	120,447.45
Jul 2014	246	(1)	3	(3)	122,080.17
Aug 2014	245	(1)	4	(4)	120,239.66
Sep 2014	245	-	5	-	120,411.54
Oct 2014	246	1	6	6	120,488.51
Nov 2014	245	(1)	7	(7)	120,395.87
Dec 2014	246	1	8	8	120,488.50
Jan 2015	246	-	9	-	120,488.50
Feb 2015	243	(3)	10	(30)	119,795.86
Mar 2015	249	6	11	66	121,207.26
Totals	<u>2,955</u>	<u>(1)</u>		<u>33</u>	<u>\$1,448,852.13</u>
	(A)			(B)	

Test Year Unmetered Multi-Family Sewer Revenues		\$1,448,852.13
Divide By: Test year Unmetered Multi-Family Sewer Customer Bills	(A)	<u>2,955</u>

Test Year Average Monthly Unmetered Multi-Family Sewer Bill		\$ 490.31
Times: Additional Unmetered Multi-Family Customer Bills	(B)	<u>33</u>

Adjustment Increase (Decrease) \$ 16,180

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(4)

Normalize Metered Commercial Revenue

To normalize General Ledger Account 4060, Metered Commercial, customer growth during the test year.

	<u>Number of Customers</u>	<u>Customer Growth</u>	<u>Remaining Billings</u>	<u>Additional Annual Billings</u>	<u>Account 4060 Monthly Sales</u>
Apr 2014	44				\$4,952.56
May 2014	44	-	1	-	4,749.40
Jun 2014	45	1	2	2	6,073.93
Jul 2014	46	1	3	3	6,823.15
Aug 2014	49	3	4	12	8,813.15
Sep 2014	48	(1)	5	(5)	6,009.41
Oct 2014	48	-	6	-	5,969.18
Nov 2014	48	-	7	-	5,611.74
Dec 2014	48	-	8	-	8,380.39
Jan 2015	48	-	9	-	5,166.37
Feb 2015	48	-	10	-	5,554.49
Mar 2015	48	-	11	-	6,839.35
Totals	<u>564</u>	<u>4</u>		<u>12</u>	<u>\$74,943.12</u>
	(A)			(B)	

Test Year Metered Commercial Revenues		\$ 74,943.12
Divide By: Test year Metered Commercial Bills	(A)	<u>564</u>
Test Year Average Monthly Metered Commercial Bill		\$ 132.88
Times: Additional Metered Commercial Bills	(B)	<u>12</u>

Adjustment Increase (Decrease) \$ 1,595

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(5)

Unmetered Residential Post Test Year Customer Growth

To estimate the customer growth for Account 4020, Unmetered Residential Revenue, for the twelve (12) months ending March 31, 2016, the end of the adjustment period.

	<u>2015 Actual Account 4020 Monthly Sales</u>	<u>2014 Actual Account 4020 Monthly Sales</u>	<u>2015 Actual \$ over 2014 Actual \$</u>	<u>2015 Actual Growth % over 2014</u>
Jan	\$102,246.67	\$98,031.81	\$ 4,214.86	4.2995%
Feb	102,477.51	99,811.46	2,666.05	2.6711%
Mar	102,735.92	99,051.47	3,684.45	3.7197%
Apr	103,775.60	99,539.15	4,236.45	4.2561%
May	103,913.90	99,572.39	4,341.51	4.3602%
Jun	104,427.40	99,252.56	5,174.84	5.2138%
Jul	104,715.03	98,984.81	5,730.22	5.7890%
Aug	105,286.64	101,361.54	3,925.10	3.8724%
Sep	105,558.96	100,193.05	5,365.91	5.3556%
Oct	105,394.32	100,405.22	4,989.10	4.9690%
Total	<u>\$ 1,040,531.95</u>	<u>\$ 996,203.46</u>	<u>\$ 44,328.49</u>	4.4497%
Test Year Unmetered Residential Revenues			\$ 1,208,793	
Add: Test Year Customer Growth (Adj. 5-1)			<u>25,935</u>	
Total Normalized Test Year Revenues			\$ 1,234,728	
Multiplied By: Average 2015 Customer Growth Rate			<u>4.4497%</u>	
Adjustment Increase (Decrease)				<u><u>\$ 54,942</u></u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(6)

Unmetered Multi-Family Post Test Year Customer Growth

To estimate the customer growth for Account 4030, Unmetered Multi-Family Revenue, for the twelve (12) months ending March 31, 2016, the end of the adjustment period.

		<u>2015 Actual</u> <u>Account 4030</u> <u>Monthly Sales</u>	<u>2014 Actual</u> <u>Account 4030</u> <u>Monthly Sales</u>	<u>2015 Actual \$</u> <u>over 2014</u> <u>Actual \$</u>	<u>2015 Actual</u> <u>Growth %</u> <u>over 2014</u> <u>Actual</u>
Jan	2015	\$120,488.50	\$120,524.58	\$ (36.08)	-0.0299%
Feb	2015	119,795.86	120,516.80	(720.94)	-0.5982%
Mar	2015	121,207.26 ¹	120,429.58	777.68	0.6458%
Apr	2015	120,488.50 ²	120,429.58	\$58.92	0.0489%
May	2015	120,421.80	120,506.54	(84.74)	-0.0703%
Jun	2015	120,565.76	120,447.45	118.31	0.0982%
Jul	2015	120,582.08	120,239.66	342.42	0.2848%
Aug	2015	120,736.00	120,239.66	496.34	0.4128%
Sep	2015	120,736.00	120,411.54	324.46	0.2695%
Oct	2015	120,736.00	120,488.51	247.49	0.2054%
Total		\$1,205,757.76	\$1,204,233.90	<u>\$ 1,523.86</u>	0.1265%
Test Year Unmetered Multi-Family Revenues				\$ 1,448,852	
Add: Test Year Customer Growth (Adj. 5-3)				<u>16,180</u>	
Total Normalized Test Year Revenues				\$ 1,465,032	
Multiplied By: Average 2015 Customer Growth Rate				<u>0.1265%</u>	
Adjustment Increase (Decrease)					<u><u>\$ 1,853</u></u>

1 April 2014 had an unexplained revenue increase of \$1,872.69, so for forecasting March 2014 revenue was used.

2 August 2014 had an unexplained revenue increase of \$1,632.72, so for forecasting July 2014 revenue was used.

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Revenue Adjustments

(7)

Metered Commercial Post Test Year Customer Growth

To estimate the customer growth for Account 4060, Metered Commercial Revenue, for the twelve (12) months ending March 31, 2016, the end of the adjustment period.

		<u>2015 Actual</u> <u>Account 4060</u> <u>Monthly Sales</u>	<u>2014 Actual</u> <u>Account 4060</u> <u>Monthly Sales</u>	<u>2015 Actual \$</u> <u>over 2014</u> <u>Actual \$</u>	<u>2015 Actual</u> <u>Growth %</u> <u>over 2014</u> <u>Actual</u>
Jan	2015	\$5,166.37	\$4,348.90	\$ 817.47	18.7972%
Feb	2015	5,554.49	4,734.78	819.71	17.3125%
Mar	2015	6,839.35	5,311.01	1,528.34	28.7768%
Apr	2015	6,447.28	4,952.56	1,494.72	30.1808%
May	2015	6,658.19	4,749.40	1,908.79	40.1901%
Jun	2015	7,080.19	6,073.93	1,006.26	16.5669%
Jul	2015	6,855.26	6,823.15	32.11	0.4706%
Aug	2015	7,860.39	8,813.15	(952.76)	-10.8107%
Sep	2015	9,340.38	6,009.41	3,330.97	55.4292%
Oct	2015	8,925.46	5,969.18	2,956.28	49.5257%
Total		<u>\$70,727.36</u>	<u>\$57,785.47</u>	<u>\$12,941.89</u>	22.3964%
Test Year Metered Commercial Revenues				\$ 74,943	
Add: Test Year Customer Growth (Adj. 5-4)				<u>1,595</u>	
Total Normalized Test Year Revenues				\$ 76,538	
Multiplied By: Average 2015 Customer Growth Rate				<u>22.3964%</u>	
Adjustment Increase (Decrease)					<u>\$ 17,142</u>

**AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676**

Revenue Adjustments

(8)

Metered Multi-Family Post Test Year Customer Growth

To estimate the customer growth for Account 4050, Metered Multi-Family Revenue, for the twelve (12) months ending March 31, 2016, the end of the adjustment period.

		<u>2015 Actual Account 4050 Monthly Sales</u>	<u>2014 Actual Account 4050 Monthly Sales</u>	<u>2015 Actual \$ over 2014 Actual \$</u>	<u>2015 Actual Growth % over 2014 Actual</u>
Jan	2015	\$ 1,475.88	\$ 1,210.36	\$ 265.52	21.9373%
Feb	2015	1,731.85	1,500.46	231.39	15.4213%
Mar	2015	1,910.09	1,239.86	670.23	54.0569%
Apr	2015	1,549.63	1,166.10	383.53	32.8900%
May	2015	1,416.87	1,397.20	19.67	1.4078%
Jun	2015	1,298.86	1,348.03	(49.17)	-3.6475%
Jul	2015	1,484.75 ³	1,580.00	(95.25)	-6.0285%
Aug	2015	1,461.14	1,753.31	(292.17)	-16.6639%
Sep	2015	1,413.95	1,626.21	(212.26)	-13.0524%
Oct	2015	1,421.81	1,645.49	(223.68)	-13.5935%
Total		<u>\$ 15,164.83</u>	<u>\$ 14,467.02</u>	<u>\$ 697.81</u>	4.8235%
Test Year Metered Multi-Family Revenues				\$ 17,376	
Add: Test Year Customer Growth				<u>-</u>	
Total Normalized Test Year Revenues				\$ 17,376	
Multiplied By: Test Year Growth over 2014				<u>4.8235%</u>	
Adjustment Increase (Decrease)					<u>\$ 838</u>

³ July 2014 revenues were not recorded in to the general ledger; therefore, a calculated amount of \$1,580 was imputed.

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Expense Adjustments

(1)

Salaries and Wages

To adjust operation and maintenance expenses to *pro forma* salaries and wages.

Total <i>Pro forma</i> Staff Salaries and Wages	\$ 396,885	
Less: Test Year Wastewater Staff Salaries and Wages	<u>356,495</u>	
Staff Salaries and Wages Adjustment		\$ 40,390
Add: <i>Pro forma</i> Officer Salaries and Wages	\$ 105,000	
Less: Test Year Officer Salaries and Wages	<u>246,231</u>	
Offices Salary Adjustment		<u>(141,231)</u>
Total <i>Pro forma</i> Salaries and Wages		<u>\$ (100,841)</u>
Adjustment Increase (Decrease)		<u>\$ (100,841)</u>

(2)

401K Match

To adjust operation and maintenance expenses for the estimated decrease in benefits expense for the 401K matching amount.

<i>Pro forma</i> Staff Salaries and Wages	\$ 396,885	
Times: 4%	<u>4.00%</u>	
<i>Pro forma</i> 401K Match	\$ 15,875	
Add: Bonus 401K Paid in Test Year	<u>14,453</u>	
Total <i>Pro forma</i> 401K Benefits		\$ 30,328
Less: Test Year		<u>31,762</u>
Adjustment Increase (Decrease)		<u>\$ (1,434)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(3)

Building Lease

To adjust operation and maintenance expenses to reflect the cost of the building leased by the utility.

Monthly Lease Payments	\$ 4,500	
Times: 12 Months	<u>12</u>	
<i>Pro forma</i> Annual Building Lease		\$ 54,000
Less: Test Year Payments Other Than Building Lease		<u>(1,900)</u>
Adjustment Increase (Decrease)		<u>\$ 52,100</u>

(4)

Expense Normalization

To adjust operating and maintenance expenses to reflect additional costs due to customer growth.

Variable Operating Costs

Test Year Purchased Power Expense	\$ 159,412	
Test Year Chemical Expense	27,455	
Test Year Postage and Collection Expense	<u>15,292</u>	
Total Variable Operating expenses	(1) <u>202,159</u>	
Total Test Year Operating Revenues	(2) \$ 3,039,464	
Variable Operating Expenses as a % of Revenue	(1) / (2)	6.65%
Times: Customer Growth Revenues (See Schedule 5)		<u>\$ 121,855</u>
Adjustment Increase (Decrease)		<u>\$ 8,103</u>

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Expense Adjustments

(5)

Rate Case Expense

To adjust operation and maintenance expenses to reflect the cost of regulatory cases.

Pro forma Rate Case Expenses:

Legal Fees	\$ 250,000
Rate Consultant Fees	150,000
Engineering Fees	20,000
Accounting Fees	<u>10,000</u>

Total <i>Pro forma</i> Rate Case Expense	\$ 430,000
Divided By: 10 Years Amortization	<u>2</u>

Adjustment Increase (Decrease) \$ 215,000

(6)

General Insurance

To adjust operation and maintenance expenses to reflect the *pro forma* cost of insurance.

2015 General Liability and Vehicle Insurance Expense	
Less: Test Year	\$ 25,208
	<u>24,348</u>

Adjustment Increase (Decrease) \$ 860

(7)

IURC Annual Fee

To adjust operation and maintenance expenses for the Indiana Utility Regulatory Commission (IURC) annual fee.

<i>Pro forma</i> Present Rate Operating Revenues	\$ 3,066,319
Times: 2015-2016 Annual Fee Factor	<u>0.001077802</u>

<i>Pro forma</i> IURC Annual Fee	\$ 3,305
Less: Test Year	<u>2,599</u>

Adjustment Increase (Decrease) \$ 706

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Expense Adjustments

(8)

Capital Items Expensed

To adjust test year operation and maintenance expenses for capital items expensed.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>
<u>Non-Project Related Capital Items</u>				
11/2/2014	US Airways Credit Card	6053	Item # 144080 16 Channel Security System	749.00
6/10/2014	Fifth Third Credit Card	6230	2 - Generac GP8500 Generators	1,687.14
6/10/2014	44221	6230	Soft-Cut 150 Prower Concrete Saw	2,247.00
8/18/2014	Fifth Third Credit Card 44221	7530	H5B12-1 Webtrol Pump Single Phase (Spear Corporation)	1,530.50
11/20/2014	74262	7520	Barnes Sewage Pump Model 6SHMJ25046, 25 HP, 1150 RPM Monovan Impeller	\$ 9,091.55
4/17/2014	12190	7530	40H WEG Motor	2,175.00
3/27/2014	303936	7530	Goulds 33GB 1HP/230/460V/3PH High Pressure Multistage Pump	809.95
			Goulds 33GB 2HP/230/460V/3PH High Pressure Multistage Pump	919.95
3/26/2014	302697	7530	Pall Filter Manifold, 3-Position Aluminum Filter Funnel Magnetic Pall 4242	3,059.26 1,353.46
2/2/2015	12576	7530	VEBM3546 Baldor Motor	883.80
3/4/2015	1958	6230	2 Portable Chargers 2 Speakers / Microphones	639.86 181.90
Total Non-Project Related Capital Items				\$ 25,328.37

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(8) (Continued)

Capital Items Expensed

To adjust test year operation and maintenance expenses for capital items expensed.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>	
<u>Big 3 Sewer Project</u>					
1/9/2015	5262	7311	Project 14039 Big 3 Sewer Progress Site Inspection	\$ 570.00	
9/4/2014	5017	7315	Project 14039 Big 3 Sewer Progress Site Inspection	285.00	
6/17/2014	4877	7315	Project 14039 Big 3 Sewer Progress Site Inspection	445.00	
7/9/2014	4905	7315	Project 14039 Big 3 Sewer Progress Site Inspection	475.00	
8/5/2014	4938	7315	Project 14039 Big 3 Sewer Progress Site Inspection	380.00	
			Total Big 3 Sewer Project		2,155.00
<u>ASU Cumberland Project</u>					
5/12/2014	4801	7311	Project 14011 ASU Cumberland Professional Fees	\$ 1,267.50	
10/6/2014	5104	7311	Project 14011 ASU Cumberland Professional Fees	1,850.00	
12/4/2014	5186	7311	Project 14011 ASU Cumberland Professional Fees	3,230.83	
1/7/2015	5233	7311	Project 14011 ASU Cumberland Professional Fees	1,128.75	
			Total ASU Cumberland Project		7,477.08

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(8) (Continued)

Capital Items Expensed

To adjust test year operation and maintenance expenses for capital items expensed.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>
<u>Klondike Road Project</u>				
4/15/2014	4774	7311	Project 14007 ASU Klondike Professional Fees	\$ 2,040.00
11/6/2014	5166	7311	Project 14007 ASU Klondike Professional Fees	8,707.50
5/12/2014	4797	7311	Project 14007 ASU Klondike Professional Fees	8,877.54
6/9/2014	4847	7311	Project 14007 ASU Klondike Professional Fees	3,130.00
7/9/2014	4900	7311	Project 14007 ASU Klondike Professional Fees	7,115.00
9/4/2014	5034	7311	Project 14007 ASU Klondike Professional Fees	2,881.25
12/4/2014	5185	7311	Project 14007 ASU Klondike Professional Fees	5,307.15
10/6/2014	5103	7311	Project 14007 ASU Klondike Professional Fees	9,947.50
1/7/2015	5232	7311	Project 14007 ASU Klondike Professional Fees	1,583.75
			Total Klondike Road Project	<u>49,589.69</u>
			Total Capital Items Expensed	<u>\$ 84,550.14</u>
			Adjustment Increase (Decrease)	<u>\$ (84,550)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(9)

Non-Recurring Items

To adjust test year operation and maintenance expenses for non-recurring items.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>
<u>IDEM Penalty</u>		6171	Enforcement Action	\$ 8,625.00
10/1/2014	IDEM Case #		Paid in Four Installments	8,625.00
1/13/2015	2013-21924-W		\$8,625.00 Each / 2 during the test year	
<u>IDNR Penalty</u>		6171	Indiana Department of Natural Resources (IDNR)	809.91
10/23/2014	DR 4-2			
	Case No. 2014-21924-W			
11/12/2014		6515	First Time Development (Water Repairs)	3,296.98
5/24/2014	6148	7530	First Time Development Fence	9,160.00
4/21/2014	1670998	7338	Barnes & Thornburg, LLP (Rate Case Expense)	2,182.50
6/30/2014	1690910	7338	Barnes & Thornburg, LLP (Rate Case Expense)	1,813.50
Total Non-Recurring Operating Expenses				\$ 34,512.89
11/30/2014	5209	7311	Project 13046 Los Tres Grandes Two Man Survey Crew	\$ 280.00
4/15/2014	4770	7311	Project 13046 Los Tres Grandes Professional Fees	7,249.00
5/12/2014	4785	7311	Project 13046 Los Tres Grandes Professional Fees	1,830.00
6/10/2014	4851	7311	Project 13046 Los Tres Grandes Professional Fees	1,297.50
1/7/2015	5247	7311	Project 13046 Los Tres Grandes Two Man Survey Crew	1,692.50
Total Los Tres Grandes Project				12,349.00

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(9) (continued)

Non-Recurring Items (continued)

To adjust test year operation and maintenance expenses for non-recurring items.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>
<u>ASU Carriage Estates Plant Project</u>				
12/4/2014	5206	7311	Project 14047 ASU Carriage Estates Plant Property Access	\$ 805.00
8/11/2014	4984	7311	Project 14047 ASU Carriage Estates Plant Professional Fees	2,860.75
9/4/2014	5030	7315	Project 14047 ASU Carriage Estates Plant Professional Fees	2,710.00
10/9/2014	5089	7315	Project 14047 ASU Carriage Estates Plant Professional Fees	4,019.44
			Total ASU Carriage Estates Plant	10,395.19
			Adjustment Increase (Decrease)	\$ (57,257)

(10)

Disallowed Items

To adjust test year operation and maintenance expenses for disallowed items.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>
<u>Expenses Not Allowed or Imprudent</u>				
11/17/2014	Fifth Third Credit Card 44221	6074	Oakley M2 Frame Polarized Iridium Shield Sunglasses, Polished Black, 145mm (Robert Patton - Non-ASU Employee)	\$ 200.27
9/29/2014	Fifth Third Credit Card 44221	6053	Safco Mobile Plan Center 5060 (Invoiced to First Time Development Corp)	548.23
5/22/2014	Fifth Third Credit Card 44221	6053	Careerbuilder (Prepaid Priority City Jobs) (ASU has a maximum of 15 employees)	419.00
7/31/2014	Fifth Third Credit Card 44221	7530	IDEXX Laboratories, Inc. (Products and Services for Small Animal Health)	1,391.71

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Expense Adjustments

(10) (Continued)

Disallowed Items

To adjust test year operation and maintenance expenses for disallowed items.

<u>Invoice Date</u>	<u>Invoice Number</u>	<u>General Ledger Acct</u>	<u>Description</u>	<u>Amount</u>
11/20/2014	US Airways Credit Card 6950	6219	St. Elmo Steakhouse (2 People)	\$ 200.00
6/16/2014	Fifth Third Credit Card		Crowne Plaza, Madison, WI (Non-Employee: Edward Serowka)	320.48
<u>2014 Christmas Party Expenses</u>				
11/26/2014	US Airways	6053	Sam's Club	563.09
12/3/2014	Credit	6053	Marsh Supermarket	125.33
12/4/2014	Card	6053	Sam's Club	548.01
12/4/2014	6950	6053	Marsh Supermarket	132.62
7/14/2014	66 077 264	6117	Prudential Personal Life Insurance with Fifth Third Bank as Beneficiary	3,242.00
6/16/2014	95 145 796	6117	Prudential Personal Life Insurance with Fifth Third Bank as Beneficiary	481.27
9/19/2014	95 145 796	6117	Prudential Personal Life Insurance with Fifth Third Bank as Beneficiary	481.27
1/14/2015	34762494-1501	6160	NFIB Membership	300.00
1/22/2015	34762494-1501	6160	NFIB Membership (Not in AP files but In GL)	300.00
Adjustment Increase (Decrease)				<u>\$ (9,253)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(11)

Management Fee

To adjust test year for First Time Development monthly management fees in general ledger account 7368 during the test year.

<u>GL Date</u>	<u>General Ledger Description</u>	<u>Invoice No.</u>	<u>Amount</u>
4/11/2014	Jan Mgmt	15752	\$ 3,274.82
4/11/2014	Feb Mgmt	15753	3,274.82
4/11/2014	Mar Mgmt	15754	3,274.82
6/9/2014	Apr and May	15903	52,866.42
8/18/2014	Mgmt June 14	16160	19,423.25
9/25/2014	July Mgmt	16251	19,423.25
9/25/2014	August Mgmt	16252	15,687.66
9/25/2014	Sept Mgmt	16253	12,550.13
2/19/2015	First Time Development	16645	14,572.80
2/19/2015	First Time Development	16646	11,658.24
Adjustment Increase (Decrease)			<u>\$ (156,006)</u>

(12)

Depreciation Expense

To adjust test year depreciation expense on utility plant in service (UPIS) as of March 31, 2015.

Cause No. 41254 - Utility Plant in Service - Sewer	\$ 8,070,510	
Add: Capitalized Items Expensed (See Sch 6, Adj 8)	32,805	
Less: Land and land Rights - Sewer	(66,326)	
L3 Invoices for Lift Station	(70,011)	
Backhoe	(67,250)	
2010 Cadillac Escalade	<u>(51,356)</u>	
Sewer Depreciable Plant		\$ 7,848,372
March 31, 2015 - Utility Plant in Service - Water	\$ 112,609	
Less: Land and land Rights - Water	<u>(6,057)</u>	
Water Depreciable Plant		<u>118,666</u>
Total Depreciable Plant		7,967,038
Times: Composite Rate		<u>2.50%</u>
<i>Pro forma</i> Depreciation Expense		\$ 199,176
Less: Test Year		<u>578,374</u>
Adjustment Increase (Decrease)		<u>\$ (379,198)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(13)

Depreciation Expense

To adjust depreciation expense for expense on utility plant in service (UPIS) as of March 31, 2016.

Utility Plant in Service - Sewer	\$	7,967,038	
Add: Capitalized Items Expensed (See Sch 6, Adj 8)		<u>2,155</u>	
Sewer Depreciable Plant	\$		7,969,193
<hr/>			
Add: Utility Plant Addition - Big 3 Project	\$	2,100,000	
Add: March 31, 2016 - Amount to Complete		<u>237,631</u>	
Total Big 3 Project			2,337,631
<u>Retirements Because of Big 3 Sewer Project</u>			
Less: Retired Big Oaks Lift Station (See Attach CEP-6)	\$	(2,112)	
Less: Retired Kimberly Lift Station (See Attach CEP-6)		(22,960)	
Less: Retired Hawthorne Lift Station (See Attach CEP-6)		<u>(34,110)</u>	
Retirements Because of Big 3 Sewer Project			<u>(59,182)</u>
Total Depreciable Plant	\$		10,247,642
Times: Composite Rate			<u>2.50%</u>
<i>Pro forma</i> Depreciation Expense	\$	256,191	
Less: <i>Pro forma</i> Depreciation Expense (Adj. 6-12)		<u>199,176</u>	
Adjustment Increase (Decrease)			<u>\$ 57,015</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(14)

Amortization of Contribution in Aid of Construction (CIAC)

To record amortization expense on contributions in aid of construction through the end of the adjustment period (March 2016).

Cause No. 41254 - Contributions in Aid of Construction - Sewer	\$	-	
Add: CIAC Recorded as Connection Fees		2,533,574	
Water CIAC (See Cause No. 44592)		-	
Total CIAC at March 31, 2015			\$2,533,574
Add: System Development Charges October through December 31, 2015 (See Attachment CEP-8 and General Ledger Account 3615)	\$	14,060	
Add: Connection Charges April 2015 through October 31, 2015 (See General Ledger Account 4500)		47,120	
Add: Connection Charges for November and December 2015 (See Attachment CEP-8 for Nov and Dec number of SDC which are also connections) (\$760 multiplied by 2 connections)		1,520	
Total Additional CIAC April 2015 through December 31, 2015			62,700
Add: Estimated Additional CIAC for period January through March 2016 calculated as follows:			
Connection Charges recorded April - December 2015	\$	48,640	
Divided By: Per Customer Connection Fee	\$	760.00	
Number of Additional Unmetered Residential Connections		64	
Divided By: 9 Months		9	
Estimated Additional Customers per month		7	
Times: 3 Months (Jan - Mar 2016)		3	
Estimated Additional Customers for Jan - Mar 2016			21
System Development Charge	\$	975.00	
Connection Charge		760.00	
Total Customer CIAC Charge Per Customer	\$	1,735	
Estimated Additional CIAC for Jan - Mar 2016			36,435
Total Estimated CIAC as of March 31, 2016			\$2,632,709
Multiplied By: Composite Depreciation Rate			2.50%
Total Annual Amortization for the Year Ending March 31, 2016			\$ 65,818
Adjustment Increase (Decrease)			<u>\$ (65,818)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(15)

Depreciation Expense - Phase II

To adjust depreciation expense for expense on utility plant in service (UPIS) as of December 31, 2016.

March 31, 2016 Depreciable Plant (See Sch 6, Adj 13)	\$ 10,247,642	
<u>Estimated Additional UPIS at December 31, 2016</u>		
Add: CWIP - CE-III Stage I and II	547,539	
CWIP - Klondike	15,280	
Estimated Cost - CE-III (Stage I)	1,427,661	
Estimated Cost Klondike Road	709,720	
Less: Retirement of 12" Truss Pipe	<u>(24,023)</u>	
	Total Depreciable Plant	\$ 12,923,819
	Times: Composite Rate	<u>2.50%</u>
	<i>Pro forma</i> Depreciation Expense - Phase II	\$ 323,095
	Less: <i>Pro forma</i> Depreciation Expense - Phase I	<u>256,191</u>
	Adjustment Increase (Decrease)	<u>\$ 66,904</u>

(16)

Contribution in Aid of Construction (CIAC) - Phase II

To calculate estimated CIAC for the year ended December 31, 2016.

Add: Estimated System Development Charges April 30, 2016 - December 31, 2016

Unmetered Residential

Unmetered Residential Apr-Dec 2016 Projected Additional Revenues	\$ 57,453	
Divided By: Estimated Monthly Bill Per Customer	\$ 47.50	
	Total Estimated 2016 Additional Bills	1,210
	Divided By: 12 Months	<u>12</u>
	Total Estimated Additional Unmetered Residential Customers	101
	Multiplied By: System Development Charge	<u>\$ 975</u>
	Total Unmetered Residential SDC for Apr-Dec 2016	\$ 98,475

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(16) (Continued)

Contribution in Aid of Construction (CIAC)

To calculate estimated CIAC for the year ended December 31, 2016.

Unmetered Commercial

Unmetered Commercial Apr-Dec 2016 Projected Additional Revenues	\$	5,442	
2014 Annual Report Commercial Revenues	\$	178,092	
Divided By: Avg 2014 Customers		22.50	
Estimated Annual Bill Per Customer	\$	7,915.20	
Total Estimated Additional Unmetered Commercial Customers			1
Multiplied By: System Development Charge Estimate (Charge to Chinese Alliance Church in October 2015)			<u>\$5,284.50</u>
Total Unmetered Commercial SDC for Apr-Dec 2016			5,285

Add: Estimated Connection Fees April 30, 2016 - December 31, 2016

New Unmetered Residential Connections	101	
New Unmetered Commercial Connections	<u>1</u>	
Total Estimated New Connections During 2016		102
Times: Connection Charge	\$	<u>760</u>
Total Estimated Connection Charges for Apr-Dec 2016		<u>77,520</u>
Adjustment Increase (Decrease)		<u>\$ 181,280</u>

(17)

Amortization of Contribution in Aid of Construction (CIAC)

To adjust depreciation expense for the amortization of CIAC for 2016.

March 31, 2016 CIAC (See Sch 6, Adj 14)	\$	2,632,709	
Add: Estimated CIAC for Apr-Dec 2016 (See Sch 6, Adj 15)		<u>181,280</u>	
Estimated Total CIAC on December 31, 2016			\$2,813,989
Multiplied By: Composite Depreciation Rate			<u>2.50%</u>
<i>Pro forma</i> Amortization - Phase II (December 31, 2016)	\$	70,350	
Less: <i>Pro forma</i> Amortization - Phase I (March 31, 2016) (See Sch. 6, Adj. 14)		<u>65,818</u>	
Adjustment Increase (Decrease)			<u>\$ (4,532)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(19)

Contribution in Aid of Construction (CIAC) - Phase III

To adjust depreciation expense for the amortization of CIAC from January 1, 2017 through June 30, 2018.

Add: Estimated System Development Charges January 1, 2017 - June 30, 2018

Unmetered Residential

Unmetered Residential for 2017-Jun 2018 Projected Additional Revenues	\$	86,249	
Divided By: Estimated Monthly Bill Per Customer	\$	47.50	
Total Estimated 2016 Additional Bills		1,816	
Divided By: 12 Months		<u>12</u>	
Total Estimated Additional Unmetered Residential Customers		151	
System Development Charge	\$	975	
Connection Fee		<u>760</u>	
Multiplied By: Total Charges to Connect	\$	<u>1,735</u>	
Total Estimated Charges to Connect for 18 Months			<u>261,985</u>
Adjustment Increase (Decrease)			<u>\$ 261,985</u>

(20)

Amortization of Contribution in Aid of Construction (CIAC) - Phase III

To adjust depreciation expense for the amortization of CIAC through June 2018.

December 31, 2016 CIAC (See Sch 6, Adj 17)	\$	2,813,989	
Add: Estimated CIAC for 2016 (See Sch 6, Adj 19)		<u>261,985</u>	
Estimated Total CIAC on June 30, 2018		3,075,974	
Multiplied By: Composite Depreciation Rate		<u>2.50%</u>	
<i>Pro forma</i> Amortization Expense - Phase III (June 30, 2018)	\$	76,899	
Less: <i>Pro forma</i> Amortization Expense - Phase II		<u>70,350</u>	
Adjustment Increase (Decrease)			<u>\$ (6,549)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Expense Adjustments

(21)

Accumulated Depreciation

To adjust accumulated depreciation on rate base from Cause No. 41254 UPIS for sixteen (16) years from January 1999 through March 2015.

Cause No. 41254 - Utility Plant in Service - Sewer	\$	4,463,492	
Times: Composite Rate		<u>2.50%</u>	
Annual Depreciation	\$	111,587	
Times: Number of Years		<u>15.25</u>	

Accumulated Depreciation (Jan 1999-Mar 2014) \$ 1,701,706

Cause No. 41254 - Utility Plant in Service - Sewer	\$	4,463,492	
Add: Capitalized Items Expensed (See Sch 6, Adj 8)		84,550	
Less: L3 Invoices for Lift Station		(70,011)	
Less: Backhoe		(67,250)	
Less: 2010 Cadillac Escalade		(51,356)	
March 31, 2015 - Utility Plant in Service - Water		<u>112,609</u>	
Total Depreciable Plant	\$	4,548,042	
Times: Composite Rate		<u>2.50%</u>	

Accumulated Depreciation (Apr 2014-Mar 2015) 113,701

Adjustment Increase (Decrease) \$ 1,815,407

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

(1)

Payroll Taxes

To adjust taxes other than income taxes for the increase in FICA due to the increase in salaries and wages.

	<u>FICA</u>	<u>Medicare</u>
<i>Pro forma</i> Salaries and Wages	\$ 396,885	\$ 396,885
Add: Officer Salary and Wages Subject to FICA	105,000	105,000
Add: Employee Health Reimbursement Subject to FICA	<u>24,869</u>	<u>24,869</u>
 Net <i>Pro forma</i> Subject to FICA Taxes	 \$ 526,754	 \$ 526,754
	<u>6.20%</u>	<u>1.45%</u>
	\$ 32,659	\$ 7,638

<i>Pro forma</i> FICA Expense	\$ 40,297
Less: Test Year	<u>56,012</u>

Adjustment Increase (Decrease) \$ (15,715)

(2)

Property Taxes - *Pro forma* and Phase I

To adjust property taxes for the change in tax rates for the payable year 2015 and adjust for additional property taxes payable in 2016.

Property Taxes Payable in 2015 per Tax Bills	\$ 111,694	
Less: Test Year	<u>122,456</u>	
<i>Pro forma</i> Property Tax Adjustment		(10,762)

Add: Big 3 Project Placed in Service August 2015	\$2,337,631	
Multiplied by: 100% of the Value	<u>100.0%</u>	
Tax Value of Tangible Personal Property	\$2,337,631	
Multiplied by: Annual Property Tax Rate	<u>0.0087313</u>	

Phase I Personal Property Tax Attributable to Big 3 Project 20,411

Adjustment Increase (Decrease) \$ 9,649

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Tax Adjustments

(3)

Utility Receipts Tax

To adjust test year taxes other than income taxes for Utility Receipts Tax.

<i>Pro forma</i> Operating Revenue	\$ 3,066,319	
Less: Bad Debt Expense	-	
Less: Exemption	<u>(1,000)</u>	
Taxable Operating Revenues	\$3,065,319	
Times: Utility Receipts Tax Rate	<u>1.40%</u>	
<i>Pro forma</i> Utility Receipts Tax	\$ 42,914	
Less: Test Year	<u>32,442</u>	
Adjustment Increase (Decrease)		<u>\$ 10,472</u>

(4)

Indiana State Income Tax - Phase I Pro forma

To adjust test year state income taxes for Indiana State Corporate Tax.

Adjusted Operating Revenues	\$3,066,319	
Less: Operation and Maintenance Expenses	(1,786,800)	
Less: Net Depreciation Expense	(190,373)	
Less: Adjusted Taxes Other Than Income Taxes	(172,402)	
Less: Synchronized Interest	<u>(181,041)</u>	
Adjusted State Taxable Income	\$ 735,703	
Times: Indiana Corporate Income Tax Rate	<u>6.50%</u>	
Adjustment Increase (Decrease)		<u>\$ 47,821</u>

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

(5)

Federal Income Tax - Phase I Pro forma

To adjust test year income taxes for Federal Corporate Tax.

Adjusted State Taxable Income			\$ 735,703
Less: Utility Receipts Tax			(42,914)
Less: State Income Taxes			<u>(47,821)</u>
Adjusted Federal Taxable Income			<u>\$ 687,882 (a)</u>
Amount Subject to 15% Tax	\$ 50,000	15%	\$ 7,500
Amount Subject to 25% Tax	25,000	25%	6,250
Amount Subject to 34% Tax	25,000	34%	8,500
Amount Subject to 39% Tax	235,000	39%	91,650
Amount Subject to 34% Tax	<u>352,882</u>	34%	<u>119,980</u>
	<u>\$ 687,882 (a)</u>		
	Adjustment Increase (Decrease)		<u>\$ 233,880</u>

(6)

Indiana State Income Tax - Phase I Proposed Rates

To adjust test year state income taxes for Indiana State Corporate Tax.

Adjusted Operating Revenues		\$2,725,343
Less: Operation and Maintenance Expenses		(1,786,432)
Less: Net Depreciation Expense		(190,373)
Less: Adjusted Taxes Other Than Income Taxes		(172,402)
Less: Synchronized Interest		<u>(181,041)</u>
Adjusted State Taxable Income		\$ 395,095
Times: Indiana Corporate Income Tax Rate		<u>6.50%</u>
Proposed Rates Phase I State Income Tax		\$ 25,681
Less: Phase I Pro Forma State Income Tax		<u>(47,821)</u>
	Adjustment Increase (Decrease)	<u>\$ (22,140)</u>

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

(7)

Federal Income Tax - Phase I Proposed Rates

To adjust test year income taxes for Federal Corporate Tax.

Adjusted State Taxable Income			\$ 395,095
Less: Utility Receipts Tax			(38,140)
Less: State Income Taxes			<u>22,140</u>
Adjusted Federal Taxable Income			<u>\$ 417,235 (a)</u>
Amount Subject to 15% Tax	\$ 50,000	15%	\$ 7,500
Amount Subject to 25% Tax	25,000	25%	6,250
Amount Subject to 34% Tax	25,000	34%	8,500
Amount Subject to 39% Tax	235,000	39%	91,650
Amount Subject to 34% Tax	<u>82,235</u>	34%	<u>27,960</u>
	<u>\$ 417,235 (a)</u>		
Proposed Rates Phase I Federal Income Tax			\$ 113,900
Less: Phase I <i>Pro Forma Federal</i> Income Tax			<u>(233,880)</u>
Adjustment Increase (Decrease)			<u>\$ (119,980)</u>

Phase II Adjustments

(8)

Additional Property Taxes - Phase II

To adjust Phase II property taxes for the Big 3 Sewer Project and CWIP projects assessed in 2017.

CWIP - CE-III Phase I and II		\$ 547,539
CWIP - Klondike		15,280
Estimated Cost of Klondike Rd and CE-III (Phase I)		<u>709,720</u>
Estimated Total CWIP assessed as of May 2016		\$1,272,539
Multiplied by: 10% of the Value		<u>10.0%</u>
Tax Value of Tangible Personal Property Not Placed in Service		\$ 127,254
Multiplied by: Annual Property Tax Rate		<u>0.0087313</u>
Amount of Personal Property Tax Attributable Additional CWIP for Phase II		<u>1,111</u>
Adjustment Increase (Decrease)		<u>\$ 1,111</u>

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

(9)

Indiana State Income Tax - Phase II Pro forma

To adjust *pro forma* Phase II state income taxes for Indiana State Corporate Tax.

Adjusted Operating Revenues	\$2,725,343	
Less: Operation and Maintenance Expenses	(1,786,432)	
Less: Net Depreciation Expense	(252,745)	
Less: Adjusted Taxes Other Than Income Taxes	(173,513)	
Less: Synchronized Interest	<u>(240,217)</u>	
Adjusted State Taxable Income	\$ 272,436	
Times: Indiana Corporate Income Tax Rate	<u>6.50%</u>	
<i>Pro Forma</i> State Income Tax	17,708	
Less: Phase I <i>Pro Forma</i> State Income Tax (Sch 4)	<u>25,681</u>	
Adjustment Increase (Decrease)		<u>\$ (7,973)</u>

(10)

Federal Income Tax - Phase II Pro forma

To adjust *pro forma* Phase II income taxes for Federal Corporate Tax.

Adjusted State Taxable Income	\$ 272,436		
Less: Utility Receipts Tax	(38,140)		
Less: State Income Taxes	<u>7,973</u>		
Adjusted Federal Taxable Income		<u>\$ 242,269 (b)</u>	
Amount Subject to 15% Tax	\$ 50,000	15%	\$ 7,500
Amount Subject to 25% Tax	25,000	25%	6,250
Amount Subject to 34% Tax	25,000	34%	8,500
Amount Subject to 39% Tax	235,000	39%	91,650
Amount Subject to 34% Tax	<u>(92,731)</u>	34%	<u>(31,529)</u>
	<u>\$ 242,269 (b)</u>		
<i>Pro Forma</i> Federal Income Tax			82,371
Less: Phase I <i>Pro Forma</i> State Income Tax (Sch 4)			<u>113,900</u>
Adjustment Increase (Decrease)			<u>\$ (31,529)</u>

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

(11)

Indiana State Income Tax - Phase II Proposed Rates

To adjust test year state income taxes for Indiana State Corporate Tax.

Adjusted Operating Revenues	\$3,059,070
Less: Operation and Maintenance Expenses	(1,786,792)
Less: Net Depreciation Expense	(252,745)
Less: Adjusted Taxes Other Than Income Taxes	(173,513)
Less: Synchronized Interest	<u>(240,217)</u>

Adjusted State Taxable Income	\$ 605,803
Times: Indiana Corporate Income Tax Rate	<u>6.50%</u>

Proposed Rates Phase II State Income Tax	\$ 39,377
Less: Phase II <i>Pro forma</i> State Income Tax	<u>17,708</u>

Adjustment Increase (Decrease) \$ 21,669

(7)

Federal Income Tax - Phase II Proposed Rates

To adjust test year income taxes for Federal Corporate Tax.

Adjusted State Taxable Income	\$ 605,803
Less: Utility Receipts Tax	(42,812)
Less: State Income Taxes	<u>(21,669)</u>

Adjusted Federal Taxable Income \$ 584,134 (a)

Amount Subject to 15% Tax	\$ 50,000	15%	\$ 7,500
Amount Subject to 25% Tax	25,000	25%	6,250
Amount Subject to 34% Tax	25,000	34%	8,500
Amount Subject to 39% Tax	235,000	39%	91,650
Amount Subject to 34% Tax	<u>249,134</u>	34%	<u>84,706</u>
	<u>\$ 584,134 (a)</u>		

Proposed Rates Phase I Federal Income Tax	\$ 113,900
Less: Phase II <i>Pro Forma Federal</i> Income Tax	<u>82,371</u>

Adjustment Increase (Decrease) \$ 31,529

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

Phase III Adjustments

(13)

Property Taxes - Phase III

To adjust *pro forma* Phase III property taxes for property taxes assessed in 2018.

Estimated Cost of Klondike Rd and CE-III (Phase II)	709,720	
Multiplied by: Annual Property Tax Rate	<u>0.0087313</u>	
Additional Property Taxes Payable in 2017		\$ 6,197
2018 CWIP - Estimated Cost CE-II (Phase I) and CE-III (Phase II)	\$ 10,000,000	
Multiplied by: 10% of the Value	<u>10.0%</u>	
Tax Value of Tangible Personal Property Not Placed in Service	\$1,000,000	
Multiplied by: Annual Property Tax Ratio	<u>0.0087313</u>	
Amount of Personal Property Tax Attributable to Big 3 Project		8,731
Less: Phase II Personal Property Tax (Sch 7, Adj 6)		<u>(1,111)</u>
Adjustment Increase (Decrease)		<u>\$ 13,817</u>

(14)

Indiana State Income Tax - Phase III Pro forma

To adjust *pro forma* Phase III state income taxes for Indiana State Corporate Tax.

Adjusted Operating Revenues	\$3,059,070	
Less: Operation and Maintenance Expenses	(1,571,792)	
Less: Net Depreciation Expense	(482,508)	
Less: Adjusted Taxes Other Than Income Taxes	(187,330)	
Less: Synchronized Interest	<u>(409,799)</u>	
Adjusted State Taxable Income		\$ 407,641
Times: Indiana Corporate Income Tax Rate		<u>6.50%</u>
<i>Pro Forma</i> State Income Tax		26,497
Less: Phase II <i>Pro Forma</i> State Income Tax (Sch 4)		<u>39,377</u>
Adjustment Increase (Decrease)		<u>\$ (12,880)</u>

AMERICAN SUBURBAN UTILITIES, INC.
 CAUSE NUMBER 44676

Tax Adjustments

(15)

Federal Income Tax - Phase III Pro forma

To adjust *pro forma* Phase III income taxes for Federal Corporate Tax.

Adjusted State Taxable Income			\$ 407,641
Less: Utility Receipts Tax			(42,812)
Less: State Income Taxes			<u>12,880</u>
Adjusted Federal Taxable Income			<u>\$ 377,709 (c)</u>
Amount Subject to 15% Tax	\$ 50,000	15%	\$ 7,500
Amount Subject to 25% Tax	25,000	25%	6,250
Amount Subject to 34% Tax	25,000	34%	8,500
Amount Subject to 39% Tax	235,000	39%	91,650
Amount Subject to 34% Tax	<u>42,709</u>	34%	<u>14,521</u>
	<u>\$ 377,709 (c)</u>		
Adjusted Federal Taxable Income			\$ 128,421
Less: Phase II <i>Pro forma</i> Federal Income Tax		(Sch 4)	<u>113,900</u>
			<u>\$ 14,521</u>

(16)

Indiana State Income Tax - Phase III Proposed Rates

To adjust test year state income taxes for Indiana State Corporate Tax.

Adjusted Operating Revenues		\$3,924,382
Less: Operation and Maintenance Expenses		(1,572,725)
Less: Net Depreciation Expense		(482,508)
Less: Adjusted Taxes Other Than Income Taxes		(187,330)
Less: Synchronized Interest		<u>(409,799)</u>
Adjusted State Taxable Income		\$ 1,272,020
Times: Indiana Corporate Income Tax Rate		<u>6.50%</u>
Proposed Rates Phase II State Income Tax	\$ 82,681	
Less: Phase III <i>Pro forma</i> State Income Tax	<u>26,497</u>	
		<u>\$ 56,184</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Calculation of Rate Base

Mar-16

Dec-16

Jun-18

	<i>Pro forma (Beginning) Rate Base</i>			Phase I Rate Base			Phase II Rate Base			Phase III Rate Base		
	Per Petitioner	Per OUCC	OUCC More (Less)	Per Petitioner	Per OUCC	OUCC More (Less)	Per Petitioner	Per OUCC	OUCC More (Less)	Per Petitioner	Per OUCC	OUCC More (Less)
UPIS at March 31, 2015/Invoices Supplied	\$ 18,628,559	\$ 3,607,018	\$(15,021,541)	\$ 18,628,559	\$ 3,607,018	\$(15,021,541)	\$ 18,628,559	\$ 3,607,018	\$(15,021,541)	\$ 18,628,559	\$ 3,607,018	\$(15,021,541)
UPIS in Cause No. 41254		4,463,492	4,463,492		4,463,492	4,463,492		4,463,492	4,463,492		4,463,492	4,463,492
Add: Capitalized Expenses (See Sch 6, Adj 8)	32,805	32,805	-	34,960	34,960	-	84,550	84,550	-	84,550	84,550	-
Less: L3 Invoices for Lift Station	(70,011)	-	70,011	(70,011)	-	70,011	(70,011)	-	70,011	(70,011)	-	70,011
Less: Backhoe		(67,250)	(67,250)		(67,250)	(67,250)		(67,250)	(67,250)		(67,250)	(67,250)
Less: 2010 Cadillac Escalade		(51,356)	(51,356)		(51,356)	(51,356)		(51,356)	(51,356)		(51,356)	(51,356)
Less: Retired Big Oaks Lift Station					(2,112)	(2,112)		(2,112)	(2,112)		(2,112)	(2,112)
Less: Retired Kimberly Lift Station					(22,960)	(22,960)		(22,960)	(22,960)		(22,960)	(22,960)
Less: Retired Hawthorne Lift Station					(34,110)	(34,110)		(34,110)	(34,110)		(34,110)	(34,110)
Less: Retired 12" Polyvinyl Chloride (PVC) Truss Pipe								(24,023)	(24,023)		(24,023)	(24,023)
Add: Remaining Water Assets Allowed	112,609	112,609	-	112,609	112,609	-	112,609	112,609	-	112,609	112,609	-
Add: CWIP - Big 3				2,491,078	2,100,000	(391,078)	2,491,078	2,100,000	(391,078)	2,491,078	2,100,000	(391,078)
CWIP - CE-III Phase I and II							547,539	547,539	-	547,539	547,539	-
CWIP - Klondike							15,280	15,280	-	15,280	15,280	-
Add: Estimated Cost of Remaining Big 3 Sewer Project				1,006,767	237,631	(769,136)	1,006,767	237,631	(769,136)	1,006,767	237,631	(769,136)
Add: Estimated Cost of Klondike Rd							3,078,891	709,720	(2,369,171)	3,078,891	709,720	(2,369,171)
Estimated Cost CE-III (Phase I)								1,427,661	1,427,661		1,427,661	1,427,661
Add: Estimated Cost CE-III (Phase II)										9,524,800	8,024,800	(1,500,000)
Gross Utility Plant in Service	18,703,962	8,097,318	(10,606,644)	22,203,962	10,377,922	(11,826,040)	25,895,262	13,103,689	(12,791,573)	35,420,062	21,128,489	(14,291,573)
Accumulated Depreciation												
Less: Accumulated Depreciation	(5,104,584)	-	5,104,584	(5,104,584)	-	5,104,584	(5,104,584)	-	5,104,584	(5,104,584)	-	5,104,584
Less: Accum Deprec in Cause No. 41542		(644,204)	(644,204)		(644,204)	(644,204)		(644,204)	(644,204)		(644,204)	(644,204)
Less: Accum Deprec Adj (Sch 6, Adj 21)		(1,815,407)	(1,815,407)		(1,815,407)	(1,815,407)		(1,815,407)	(1,815,407)		(1,815,407)	(1,815,407)
Add: Accum Deprec-2010 Cadillac Escalade												
Add: Accum Deprec-Backhoe												
Less: Accum Deprec/Remaining Water Assets		(50,079)	(50,079)		(50,079)	(50,079)		(50,079)	(50,079)		(50,079)	(50,079)
Less: Additional Accum Deprec as of March 31, 2016				(583,854)	(256,191)	327,663	(583,854)	(256,191)	327,663	(583,854)	(256,191)	327,663
Less: Estimated Accum Deprec as of Dec 31, 2016							(233,542)	(242,321)	(8,779)	(233,542)	(242,321)	(8,779)
Estimated Accum Deprec as of Jun 30, 2016										(124,737)		
Less: 2018 - Big 3 Sewer												
Accum Deprec Big 3 Sewer Dec 31, 2016							(41,579)	-	41,579	(41,579)	-	41,579
Less: - Big 3 Sewer Estimated Accum												
Less: Est Accum Deprec as of Jun 30, 2018 - Klondike Rd and CE-III (Phase I)										(700,625)	(839,111)	(138,486)
Add: Phase Retirements					59,182	59,182		83,205	83,205		83,205	83,205
Accumulated Depreciation	(5,104,584)	(2,509,690)	2,594,894	(5,688,438)	(2,706,699)	2,981,739	(5,963,559)	(2,924,997)	3,038,562	(6,927,345)	(3,764,108)	2,900,076
Net Utility Plant In Service	13,599,378	5,587,628	(8,011,750)	16,515,524	7,671,223	(8,844,301)	19,931,703	10,178,692	(9,753,011)	28,492,717	17,364,381	(11,391,497)

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Calculation of Rate Base

Mar-16

Dec-16

Jun-18

	<i>Pro forma (Beginning) Rate Base</i>			Phase I			Phase II			Phase III		
Less: Contributions in Aid of Construction	(6,590,571)	-	6,590,571	(6,590,571)	-	6,590,571	(6,590,571)	-	6,590,571	(6,590,571)	-	6,590,571
Less: CIAC in Cause No. 41542		(294,561)	(294,561)		(294,561)	(294,561)		(294,561)	(294,561)		(294,561)	(294,561)
Less: Water CIAC (Cause No. 44592)	-	-	-	-	-	-	-	-	-	-	-	-
Less: Estimated CIAC from Schedule 6				-	(99,135)	(99,135)	-	(99,135)	(99,135)	-	(99,135)	(99,135)
Less: Unrecorded CIAC from Connection Fees		(2,533,574)	(2,533,574)		(2,533,574)	(2,533,574)		(2,533,574)	(2,533,574)		(2,533,574)	(2,533,574)
Less: Estimated 2016 CIAC from Schedule 6				-	-	-	-	(181,280)	(181,280)	-	(181,280)	(181,280)
Less: Estimated 2017 thru June 2018 CIAC from Schedule 6										-	(261,985)	(261,985)
Add: Additional Accum Amortization of CIAC as of March 31, 2016 (Sch 6)				205,955	65,818	(140,137)	205,955	65,818	(140,137)	205,955	65,818	(140,137)
Add: Additional Accum Amortization of CIAC as of December 31, 2016 (Sch 6)							82,382	52,763	(29,619)	82,382	52,763	(29,619)
Add: Additional Accum Amortization of CIAC as of Jun 30, 2018 (Sch 6)										247,146	115,349	(131,797)
UPIS Net of CIAC	<u>7,008,807</u>	<u>2,759,493</u>	<u>(1,421,179)</u>	<u>10,130,908</u>	<u>4,809,771</u>	<u>(2,493,002)</u>	<u>13,629,469</u>	<u>7,188,723</u>	<u>(3,612,611)</u>	<u>22,437,629</u>	<u>14,227,776</u>	<u>(5,644,879)</u>
Less: Advances for Construction	(37,900)	(37,900)	-	(37,900)	(37,900)	-	(37,900)	(37,900)	-	(37,900)	(37,900)	-
Total Original Cost Rate Base	<u>\$ 6,970,907</u>	<u>\$ 2,721,593</u>	<u>\$ (1,421,179)</u>	<u>\$ 10,093,008</u>	<u>\$ 4,771,871</u>	<u>\$ (2,493,002)</u>	<u>\$ 13,591,569</u>	<u>\$ 7,150,823</u>	<u>\$ (3,612,611)</u>	<u>\$ 22,399,729</u>	<u>\$ 14,189,876</u>	<u>\$ (5,644,879)</u>

AMERICAN SUBURBAN UTILITIES, INC.
CAUSE NUMBER 44676

Pro forma Capital Structure

	Petitioner				OUC			
	Amount	Percent of Total	Cost	<i>Pro Forma</i> Weighted Cost	Amount	Percent of Total	Cost	<i>Pro Forma</i> Weighted Cost
Common Equity	\$ 10,230,394 ¹	66.73%	9.50%	6.34%	\$ 7,696,820 ¹	60.15%	9.50%	5.71%
Long Term Debt	5,100,000	33.27%	5.91%	1.97%	5,100,000	39.85%	5.91%	2.36%
Shareholder Loans		0.00%		0.00%		0.00%		0.00%
Deferred Income Taxes		0.00%		0.00%		0.00%		0.00%
Total	<u>\$ 15,330,394</u>	<u>100.00%</u>		<u>8.31%</u>	<u>\$ 12,796,820</u>	<u>100.00%</u>		<u>8.07%</u>

Calculation of Synchronized Interest

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
Total Original Cost Rate Base	\$ 7,671,223	\$10,178,692	\$ 17,364,381
Times: Weighted Cost of Debt	<u>2.36%</u>	<u>2.36%</u>	<u>2.36%</u>
Synchronized Interest Expense	<u>\$ 181,041</u>	<u>\$ 240,217</u>	<u>\$ 409,799</u>

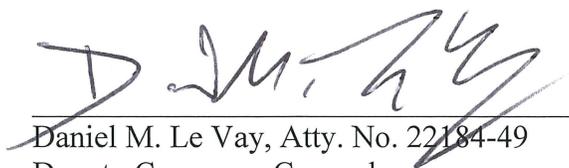
¹ 3/31/15 equity balance has been adjusted by \$2,533,574 to remove connection fees recorded as non-utility income during the period January 2001 through March 2015 based on our finding in the CIAC discussion.

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing *OUCC's Proposed Order* has been served upon the following counsel of record in the captioned proceeding by electronic service on April 25, 2016.

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