ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF)
KNIGHTSTOWN MUNICIPAL WATER UTILITY) CAUSE NO. 43440 U
FOR A NEW SCHEDULE OF RATES AND)
CHARGES) APPROVED: JUL 3 0 2008

BY THE COMMISSION:

Jeffrey L. Golc, Commissioner Aaron A. Schmoll, Administrative Law Judge

On February 19, 2008, the Knightstown Municipal Water Utility ("Knightstown" or "Applicant") filed its Application with the Indiana Utility Regulatory Commission ("Commission") for a small utility rate change (the "Application") pursuant to the provisions of Indiana Code § 8-1-2-61.5 and 170 IAC 14-1. On February 22, 2008, Applicant filed its verified statement of federal indebtedness. Knightstown subsequently filed on February 28, 2008, as required by 170 IAC 14-1-2(a), proof of publication of the notice describing the filing of its Verified Application. On February 29, 2008, the Commission determined that the Application was complete.

On March 25, 2008, the Commission received a letter from Ms. Dixie Murray, a resident of Knightstown, requesting a formal public hearing in this Cause. The letter was filed on behalf of twelve additional ratepayers ("petitioning ratepayers"), a list of whom was attached to the letter. By a docket entry dated April 10, 2008, the Commission directed the Indiana Office of Utility Consumer Counselor ("OUCC") to contact Ms. Murray to determine whether the OUCC's participation in this Cause would adequately address the concerns of the petitioning ratepayers without a formal hearing, or whether Ms. Murray or legal counsel would represent the petitioning ratepayers at an evidentiary hearing. On April 21, 2008, the OUCC filed its response to the Commission's April 10, 2008 docket entry. The OUCC reported that it contacted Ms. Murray, who indicated that the petitioning ratepayers would prefer a local field hearing rather than a formal evidentiary hearing in Indianapolis. On May 20, 2008, the Commission conducted a field hearing at the Knightstown High School in Knightstown, Indiana. Several members of the public were present, and three provided testimony. One of the witnesses noted that a fire protection surcharge is currently collected separately, but was not opposed to the rate increase, while the remaining two witnesses did not support the increase, with one questioning the lack of improvements since Applicant's 1991 rate case and viewing some of the equipment purchased by Applicant as unnecessary.

On May 29, 2008, the OUCC filed a report with the Commission (the "Report") as required by 170 IAC 14-1-4. The Report discussed and made several recommendations to the Commission concerning the relief requested by Knightstown. The OUCC also followed up on some of the concerns raised at the field hearing, including the need for certain equipment and the fire protection surcharge to cover the cost of fire hydrants. Applicant filed a written response to the Report on June 12, 2008.

Pursuant to Indiana Code § 8-1-2-61.5, a formal public evidentiary hearing is not required in rate cases involving small utilities with fewer than 5,000 customers, unless a hearing is requested by at least ten customers, a public or municipal corporation, or by the OUCC. In light of the OUCC's communications with Ms. Murray, a field hearing was held in this Cause, but no public evidentiary hearing was conducted.

Based upon the applicable law and the evidence presented herein, the Commission now finds as follows:

1. <u>Statutory Notice and Commission Jurisdiction</u>. The information presented by Knightstown in this Cause establishes that legal notice of the Application filing was published in accordance with law and that Knightstown gave proper notice to its customers of the nature and extent of the relief it is seeking. Therefore, due legal and timely notice of the matters in this proceeding was given and published as required by law. Knightstown is an Indiana municipal utility. Accordingly, the provisions of 170 IAC 14-1-2(a)(5) and (6) are applicable to the Application, and Knightstown is entitled to request an increase in its rates and charges for service pursuant to Ind. Code § 8-1-2-61.5 and 170 IAC 14-1.

The Application satisfies all of the requirements of Ind. Code § 8-1-2-61.5 and 170 IAC 14-1. The Commission, therefore, has jurisdiction over the parties and the subject matter of this Cause.

- 2. Applicant's Characteristics. Knightstown is an Indiana municipal utility providing water service in a rural area of Henry County, Indiana. According to the 2006 Annual Report filed with the Commission, Knightstown serves approximately 946 residential customers and 164 commercial customers. Applicant owns and operates a water treatment plant with capacity of 500,000 gallons per day and utilizes approximately 13.5 miles of water lines and mains. Knightstown maintains a 250,000 gallon storage tower and has more than 100 hydrants in service.
- 3. <u>Test Period</u>. The test period selected for determining Knightstown's revenues and expenses reasonably incurred in providing water utility service to its customers included the twelve (12) months ending April 30, 2007. With adjustments for changes that are fixed, known and measurable, the Commission finds that this test period is sufficiently representative of Knightstown's normal operations to provide reliable data for ratemaking purposes.
- 4. Operating Revenue. Knightstown reported its pro forma present rate annual operating revenue to be \$238,079. The OUCC proposed an additional adjustment of \$7,370. This amount represents what the utility would have received if it had collected the full revenue from each fire hydrant. As a result, the OUCC proposed a pro forma present rate revenue of \$245,449. Applicant agreed that \$245,449 is appropriate for pro forma present rate revenues.
- 5. <u>Revenue Requirements</u>. Knightstown requested a 47.8% across-the-board rate increase. In its Report, the OUCC recommended an across-the-board rate increase of 43.84%. In arriving at its proposed rate increase, the OUCC made adjustments to the following

categories: Operation and Maintenance ("O&M"), Extensions and Replacements ("E&R") and Taxes Other Than Income.

- A. Operation and Maintenance. The OUCC made several adjustments to Applicant's test year O&M expenses. For example, the OUCC adjusted insurance expenses in the amount of \$843 to reflect the current cost of insurance. The OUCC also removed meter costs from O&M expenses and placed them in E&R requirements. At the same time, the OUCC proposed \$17,300 in maintenance expenses and capitalized hydrant and roof expenses. Applicant must now pay additional utility tax receipts because of the identification of fire protection revenues. As a result, the OUCC and the Applicant agree that \$255,444 in pro forma O&M expenses is appropriate. The Commission finds that the O&M expenses are reasonable and supported by the evidence.
- B. Extensions and Replacements. The Applicant proposed an E&R revenue requirement in the amount of \$30,000. The OUCC recommended \$33,500 for E&R. This increase allows seventy meters to be replaced each year at a cost of \$50.00 per meter, or \$3,500 annually. As mentioned above, the OUCC capitalized this cost and added it to E&R expenses. The Applicant and the OUCC agree that \$33,500 should be annually allotted for capital improvements. The Commission finds that annual \$33,500 capital improvement plan is reasonable and supported by the evidence.
- C. Taxes Other Than Income. The Applicant proposed \$12,161 to account for pro forma present rates taxes other than income. The OUCC proposed that \$11,895 is necessary to meet Applicant's annual requirements. The Commission finds that \$11,895 is appropriate.
- 6. OUCC Recommendations. In its Report, the OUCC also recommended that Applicant should plan for the implementation of standby power at its wellfield and treatment plant. The OUCC proposed that Knightstown replace seventy meters per year in order to minimize its water loss. Finally, the OUCC stated that the Applicant should report biannually to the Commission its progress in reducing its water loss. The OUCC offered no recommendation regarding Applicant's proposed tap fee increase from \$330 to \$705.

In its Reply to the OUCC Report, the Applicant, while not opposed to the implementation of standby power, expressed concerns about its cost. The Applicant requested that it be allowed to focus on the improvements included in the current capital improvement plan and proposed that standby power should be addressed in its next rate case. Knightstown agreed to replace seventy meters per year. Finally, the Applicant expressed concerns about a small utility's financial ability to report biannually to the Commission its progress regarding water loss. Instead, Knightstown proposed that it be allowed to include this in its Annual Report to the Commission.

The Commission finds that the meter replacement program is reasonable and should be implemented by Knightstown. The Commission agrees with the Applicant that the investigation regarding standby power shall be reserved for Applicant's next rate case. Applicant currently has storage to supply water for approximately 24 hours in the event of a power outage, and an electric substation is located adjacent to Applicant's plant. Additionally, the Commission finds

that Knightstown shall include in its Annual Report to the Commission its progress regarding the reduction of water loss. Finally, the Commission finds that Applicant's proposed tap fee increase of \$705 is reasonable.

7. <u>Conclusion</u>. The Commission finds that the rates proposed by Knightstown, as adjusted by the OUCC, are just and reasonable. A summary of the above findings, including other revenue requirements not in dispute in this Cause, are illustrated in the following table:

Revenue Requirements

Operation and Maintenance Expenses	\$	255,444
Taxes other than Income		11,895
Extensions & Replacements		33,500
Debt Service		58,857
Total Revenue Requirements		359,697
Less: Interest Income		10,726
Net Revenue Requirements		348,971
Less: Present Rate Revenues		239,466
Less: Other Revenues at Current Rates		5,983
Net Revenue Increase Required	***************************************	103,522
Divide by Rev. Conversion Factor		0.986
Net Revenue Increase Required	\$	104,991
Percent Increase Recommended		43.84%

For illustrative purposes, the monthly bill of a residential customer, based upon 5,000 gallons usage, will increase from \$15.45 to \$22.20.

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

- 1. Consistent with the findings above, Knightstown is hereby authorized to increase its rates and charges by 43.84% across-the-board, to produce additional revenue of \$104,991.
 - 2. Knightstown is authorized to increase its tap fee to \$705.
- 3. Prior to placing into effect the rates and charges approved herein, Knightstown shall file with the Commission's Water/Sewer Division a schedule of rates and charges in a manner consistent with this Order and the Commission's rules for filing such schedules. Once the Commission's Water/Sewer Division approves the rate schedule, it shall cancel all prior rates and charges.

- 4. Knightstown should initiate a meter replacement program and report to the Commission the status of its water loss in its Annual Report filed with the Commission.
- 5. In accordance with Ind. Code § 8-1-2-70, Knightstown shall pay the following itemized charges within twenty days from the date of the Order to the Secretary of this Commission, as well as any additional costs which were or may be incurred in Connection with this Cause:

Commission Charges:

\$1572.48

OUCC Charges:

\$3832.46

Legal Advertising Charges:

\$ 23.85

Total:

\$5428.79

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

HARDY, LANDIS, SERVER, AND ZIEGNER CONCUR; GOLC ABSENT:

APPROVED: JUL 3 0 2008

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

Brenda A. Howe

Secretary to the Commission