

May 11, 2017

Dear Freeholders:

By now, you have probably heard that CWA Authority, Inc. (CWA), the entity that operates the sewage treatment plant which serves the greater Indianapolis area including the Ben Davis Conservancy, has received a substantial (almost monstrous) rate increase from the Indiana Utility Regulatory Commission (IURC). This was brought about in part by a consent decree of a federal court involving the Environmental Protection Agency that mandated the City of Indianapolis to clean up the quality of water flowing down the White River. The rate increase involved affects the Ben Davis Conservancy, the City of Lawrence, the City of Greenwood, and other contractors of sewage processing services. The IURC in its order of April 23, 2014, ordered CWA to renegotiate all of its contracts with its satellite communities because the IURC was “disturbed” that Ben Davis and other customers were not paying sufficient amounts to cover the cost of sewage treatment by CWA.

As a result, the Ben Davis Conservancy hired Mr. Parvin Price, a legal expert in utility law, with Barnes & Thornburg. Through his efforts, massive changes in sewer treatment costs have been delayed and residents of the Conservancy (as well as Lawrence and Greenwood) will slowly see their sewage processing costs rise over eight (8) years when all residents in the Indianapolis area will be paying essentially the same for sewage processing.

Because of the inevitability of rising property taxes, the Conservancy Board is considering the implementation of a flat rate user fee which will greatly curtail the Conservancy’s reliance on the property tax. The Conservancy Board is also studying the feasibility of building our own sewage treatment plan so that we will not be hostage to the rising treatment costs of CWA.

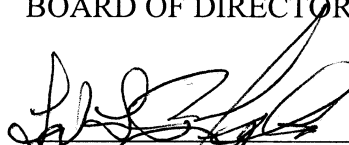
We regret that increases in the property tax for the Conservancy must rise. We believe that a user fee fairly apportioned between residential, commercial, and industrial users may be of great

relief and we want you to know that we, as fellow freeholders of the Conservancy, are also adversely affected and that we will do our best to ease the burden of property tax.

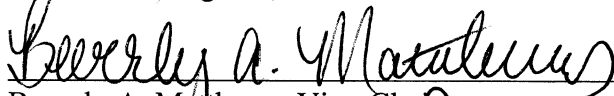
Several documents are enclosed. The first is an order of the IURC dated April 23, 2014, mandating CWA to renegotiate all satellite contracts. In this order, it appears clear that the IURC was not going to permit the "subsidy" that the Ben Davis Conservancy District has enjoyed for many years to continue. The other is a news release from the IURC. We hope that this in some manner will explain why your property taxes were increased. You can be assured that we will do our best to keep our operating costs as low as possible and to deliver sewer services at the lowest price possible. We will keep all concerned freeholders advised in the months to come.

Very truly yours,

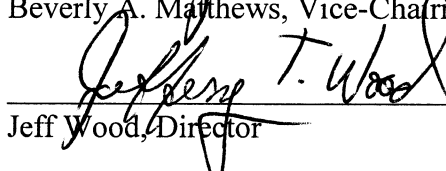
BEN DAVIS CONSERVANCY DISTRICT
BOARD OF DIRECTORS



Fred F. Buckingham, Chairman



Beverly A. Matthews, Vice-Chairman



Jeff Wood, Director

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF CWA AUTHORITY, INC. FOR (1)
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES FOR WASTEWATER UTILITY SERVICE IN) CAUSE NO. 44305
TWO PHASES AND APPROVAL OF NEW SCHEDULES)
OF RATES AND CHARGES APPLICABLE THERETO,)
AND (2) APPROVAL OF CERTAIN CHANGES TO ITS) APPROVED:
GENERAL TERMS AND CONDITIONS FOR)
WASTEWATER SERVICE.)

APR 23 2014

ORDER OF THE COMMISSION

Presiding Officers:

Carolene Mays, Commissioner

Jeffery A. Earl, Administrative Law Judge

On February 21, 2013, CWA Authority, Inc. ("CWA") filed its Verified Petition in this Cause, seeking the following:

- Authority to increase its rates and charges for wastewater service in two phases;
- Approval of new schedules of rates and charges; and
- Approval of certain changes to its general terms and conditions for wastewater service.

On February 22, 2013, CWA filed the direct testimony and exhibits of the following witnesses:

- Carey B. Lykins, President and Chief Executive Officer of the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis d/b/a Citizens Energy Group ("CEG") and CWA;
- John R. Brehm, Senior Vice President and Chief Financial Officer at CEG;
- Steven M. Fetter, President of Regulation UnFettered, a utility advisory firm;
- William A. Tracy, Senior Vice President and Chief Operating Officer at CEG;
- Mark C. Jacob, Vice President Major Capital Project for CEG;
- Lindsay C. Lindgren, Vice President Water Operations at CEG;
- Jeffrey A. Harrison, Senior Vice President Engineering and Sustainability at CEG;
- Curtis H. Popp, Vice President Engineering and Shared Field Services at CEG;
- Aaron D. Johnson, Vice President Corporate Development at CEG;
- Ronnie D. Vincent, Senior Consulting Actuary at McCready and Keene, Inc.;
- Michael C. Borchers, Management Consulting Division Manager at Black & Veatch Corporation;
- Korlon L. Kilpatrick II, Manager of Rates & Business Applications at CEG;
- Sabine E. Karner, Director of Strategic Finance at CEG; and

- LaTona S. Prentice, Vice President Regulatory Affairs at CEG.

The following parties intervened in this Cause: the CWA Authority Industrial Group (“Industrial Group”), which includes Eli Lilly & Company, Ingredion, Inc., Rolls-Royce Corporation, and Vertellus Agriculture & Nutrition Specialties, Inc.; Whitestown Municipal Water Utility;¹ and the City of Indianapolis (“City”).

In accordance with 170 IAC 1-1.1-15, the Commission held a Prehearing Conference and Preliminary Hearing on March 26, 2013, in Hearing Room 224, 101 West Washington Street, Indianapolis, Indiana. CWA, the Indiana Office of Utility Consumer Counselor (“OUCC”), and the Industrial Group appeared and participated in the Prehearing Conference. On April 3, 2013, the Commission issued a Prehearing Conference Order setting forth the procedural and scheduling details for this Cause.

The Commission held a public field hearing on May 16, 2013 in Hearing Room 222, 101 West Washington Street, Indianapolis, Indiana. Seven members of the general public testified at the field hearing, and the Commission entered the written comments it received from the public by the OUCC into evidence.

On August 23, 2013, the OUCC filed the direct testimony and exhibits of the following witnesses:

- Margaret A. Stull, Senior Utility Analyst in the OUCC’s Water/Wastewater Division;
- Charles E. Patrick, Utility Analyst in the OUCC’s Water/Wastewater Division;
- Edward R. Kaufman, Chief Technical Advisor in the OUCC’s Water/Wastewater Division;
- Harold H. Riceman, Utility Analyst in the OUCC’s Water/Wastewater Division;
- Larry W. McIntosh, Utility Analyst in the OUCC’s Water/Wastewater Division;
- Harold L. Rees, Senior Utility Analyst in the OUCC’s Water/Wastewater Division; and
- Jerry D. Mierzwa, Principal and Vice President of Exeter Associates, Inc. (“Exeter”).

The OUCC filed revised testimony from Ms. Stull on September 4, 2013.

On August 23, 2013, the Industrial Group filed the direct testimony and exhibits of Harold J. Smith, Vice President of Raftelis Financial Consultants, Inc.

On September 13, 2013, CWA filed the rebuttal testimony and exhibits of Mr. Lykins, Mr. Brehm, Mr. Fetter, Mr. Jacob, Mr. Borchers, Mr. Kilpatrick, Ms. Karner, and Ms. Prentice. In addition, CWA filed rebuttal testimony from the following witnesses:

- M. Jean Richcreek, Senior Vice President and Chief Administrative Officer for CEG; and
- Ann W. McIver, Director of Environmental Stewardship for CEG.

Also on September 13, 2013, the OUCC filed cross-answering testimony from Mr.

¹ Whitestown later withdrew its intervention in this Cause.

Service Study Results, page 8 of Public's Exh. 7, the impact of this change to CWA's COSS to the various customer classes is minor. Therefore, we accept CWA's allocation of bad debt proposed in this case. But we also find that CWA shall present a cost of service study that allocates bad debt expense across all functional costs in its next rate case.

c. **Septic Haulers.** The OUCC-Industrial Group Agreement does not address the septic hauler class of customers. Mr. Borchers criticized the OUCC's recommendation that the septic haulers' rate should not be decreased by approximately 52% when costs are increasing. Rates should be designed to allocate CWA's revenue requirements among its customer classes in a fair and reasonable manner. A cost of service study is used to determine the cost of providing service to each customer class. The results of the study should not be simply ignored because of a general belief that costs are increasing.

d. **Omitted Billing Cycles.** Finally, there was undisputed evidence in this case that CWA had omitted two billing cycles from its pro forma present rate revenues. We note that including the additional billings will impact CWA's Units of Service shown on Petitioner's Exhibit MCB-2, Schedule 2, Column 3, line 1. Therefore, CWA shall update its COSS accordingly and file it concurrently with its tariffs for review and approval.

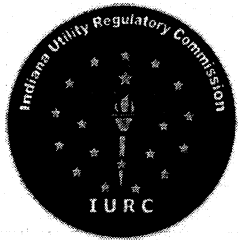
e. **Satellite Customer Contracts.** The OUCC pointed out that under CWA's proposed COSS, the rates and charges to Satellite Customers are significantly below the indicated cost of serving these customers. The costs that are under-recovered are spread out across CWA's retail customer classes, resulting in a subsidy of approximately \$11.5 million dollars. CWA assumed responsibility to serve these satellite customers under one long-term and six perpetual-term contracts negotiated by the City.

Mr. Mierzwa recommended that we require CWA to pursue all means necessary to renegotiate the Satellite contracts to provide for the recovery of the cost of service from those customers. In rebuttal, Mr. Borchers recognized that pursuing full cost recovery from the Satellite customers would be optimal, but he argued it is not practical at this time.

We are troubled by the \$11.5 million dollar subsidy that is being imposed on the retail customer classes because the contracted revenues from the Satellite customers do not cover the cost to serve those customers. As we stated above, rates should be allocated among customer classes in a fair and reasonable manner. CWA's retail customer classes should not be burdened with paying such a large portion of the cost of serving the Satellite customers. We recognize that CWA did not negotiate these contracts, and for that reason, we have not made an adjustment to the COSS in this case to remove the subsidy. But we order CWA to pursue all possible means to renegotiate the Satellite Customer contracts to provide for the recovery of the cost of service from those customers. In its next rate case, CWA shall present evidence detailing the steps it has taken to pursue renegotiation of the contracts and the results of such negotiations.

8. **Residential Balanced Billing Mechanism.**

A. **CWA's Evidence.** Ms. Prentice described the Residential Balanced Billing methodology included in Petitioner's Exhibits KLK-3 and KLK-4. Ms. Prentice stated that



Indiana Utility Regulatory Commission

News Release

101 W. WASHINGTON STREET, SUITE 1500E, INDIANAPOLIS, INDIANA 46204
MEDIA CONTACT: DANIELLE MCGRATH 317.232.2297

FOR IMMEDIATE RELEASE: April 23, 2014

IURC Approves Modified Settlement Agreement in CWA Authority, Inc.'s Sewer Rate Case *Increase in rates attributable to EPA regulations and 2006 Consent Decree*

INDIANAPOLIS – Today the Indiana Utility Regulatory Commission (IURC) approved a modified settlement agreement between the CWA Authority, Inc. and the Office of Utility Consumer Counselor that allows for a two-phase rate increase - 21.08 percent in Phase I and 5.61 percent in Phase II.

The primary driver for the rate increases is specific remediation measures related to the 2006 Consent Decree imposed by the U. S. Environmental Protection Agency on the City of Indianapolis, the previous owner of the municipal wastewater system serving Marion County and the surrounding area. The Consent Decree requires the utility to perform infrastructure upgrades in order to reduce combined sewer overflows from the wastewater system into the City's rivers and streams. Other contributing factors for the rate increase include the need to replace aging infrastructure and the continued efforts to expand wastewater service to areas reliant on septic tank systems.

Although the modification to the settlement agreement was marginal, the IURC disallowed \$1.1 million in recovery related to the utility's executive compensation plans. This modification is consistent with the IURC's decision in Citizens Water's last water rate case, under Cause No. 44306, issued on March 19, 2014. In its decision, the IURC found the utility's level of executive compensation was not appropriate for a municipal utility and significantly limited the amount of recovery in this area.

To view today's rate case decision under Cause No. 44305, please visit our homepage at www.in.gov/iurc. The Phase I increase will be effective upon CWA Authority, Inc. filing a revised tariff and its acceptance by the IURC. The Phase II increase will then be effective October 1, 2014. Other cases still pending before the IURC include the Citizens Thermal Energy rate case, under Cause No. 44349, and an investigation into Citizen Energy Group's management and billing practices, under Cause No. 44462.

The Commission is a fact-finding body that hears evidence in cases filed before it and makes decisions based on the evidence presented in those cases. An advocate of neither the public nor the utilities, the IURC is required by state statute to make decisions that balance the interests of all parties to ensure the utilities provide adequate and reliable service at reasonable prices.

For more information, please visit: www.in.gov/iurc.