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The Public Utilities
Commission of Ohio

A report by the Staff of the
Public Utilities Commission of Ohio

Aqua Ohio, Inc.

Case No. 08-759-WW-SIC

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STAFF'S REPORT
OF
INVESTIGATION

In the Matter of the Application
Of Aqua Ohio, Inc. for Authority
To Collect a System Improvement
Charge in the Masury Division.

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Case No. 08-759-WW-SIC

Submitted
to
The Public Utilities Commission

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
Of Aqua Ohio, Inc. for Authority)
To Collect a System Improvement)
Charge in the Lake Erie Division.)

Case No. 08-759-WW-SIC

Alan R Schriber, Chairman
Ronda Hartman Fergus, Commissioner
Valerie A. Lemmie, Commissioner
Paul A. Centolella, Commissioner
Cheryl Roberto, Commissioner

To The Honorable Commission:

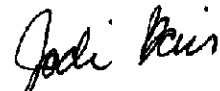
In accordance with the provisions of R.C. Section 4909.172, the Commission's Staff has conducted its investigation in the above matter and hereby submits its findings.

The Staff findings have been jointly prepared by the Commission's Utilities Department and the Service Monitoring and Enforcement Department.

The Staff findings are intended to present for the Commission's consideration the results of the Staff's investigation. It does not purport to reflect the views of the Commission nor should any party to said proceeding consider the Commission as bound in any manner by the representations or recommendations set forth therein. The Staff's findings, however, are legally cognizable evidence upon which the Commission may rely in reaching its decision in this matter. (See *Lindsey, et al. v. PUC*, 111 O.S. 6)

Respectfully submitted,

Utilities Department



Jodi Bair
Director

Service Monitoring and Enforcement Department



Doris McCarter
Director

BACKGROUND

Effective January 6, 2004, Section 4909.172, Revised Code created an infrastructure improvement surcharge mechanism for water and wastewater companies to recover specific costs associated with certain distribution plant improvements. The Commission designed a set of guidelines and schedules to be followed by companies filing applications to recover these types of costs in Case No. 03-2266-WS-SIC, *In the Matter of the Information required for System Infrastructure Improvement Surcharge* (December 19, 2003).

On June 25, 2008, Aqua Ohio, Inc. filed an application proposing to collect a system improvement surcharge in its Masury Division pursuant to the Commission's guidelines. The Applicant is proposing to add a monthly surcharge. For an average residential customer using 4,234 gallons of water per month, this would result in a \$0.71 per month increase. The Applicant currently does not have other SIC surcharges pending or in effect in any of its other Ohio divisions.

On August 1, 2008, the Attorney Examiner assigned to this case issued an Entry establishing that comments in this case should be filed by no later than September 15, 2008.

OPERATING INCOME AND RATE BASE

SCOPE OF INVESTIGATION

The scope of the Staff's investigation was designed to determine if the Applicant's filed exhibits, schedules, and other documents comply with the Commission's guidelines and are reasonable for ratemaking purposes and if the financial records supporting this data are reasonable and reliable. The Staff interviewed the Applicant's key management personnel and reviewed internal and published financial reports. The original cost of property was tested for reasonableness through an examination of the Applicant's continuing property records. In addition, the existence and the used and useful nature of the assets were verified through physical inspections. Other independent analyses were performed by the Staff as considered necessary under the circumstances.

The limited purpose of the Staff's investigation was to develop financial data for ratemaking purposes. The Staff's investigation was not intended to provide a basis for expressing an opinion on the financial statements of the Applicant as a whole.

STAFF FINDINGS

Infrastructure Plant and Depreciation

The Applicant is proposing to recover distribution system infrastructure improvements for the period between September 1, 2004 and May 31, 2008 in the amount of \$593,943 in the three accounts shown below:

Account 343 (Mains)	\$ 422,205
Account 345 (Service Replacements)	154,360
Account 348 (Hydrants)	<u>17,378</u>
Total	\$ 593,943

The Staff selected several projects from each of the three accounts for evaluation. Specifically, the Staff reviewed fifteen projects totaling \$557,508, or approximately 96% of all plant additions requested in this case. The Staff examined supporting documentation including task orders, continuing property records (CPRs), and selected invoices associated with accounts 343, 345, and 348.

The Staff determined that all projects requested in the June 25, 2008 application consisted of mains and valves, service lines, and hydrants installed as part of replacement projects for existing facilities or to address documented service quality issues in accordance with 4909.172, Revised Code. Since the projects are

replacement of aging distribution related facilities or new facilities to address documented service problems, the Staff anticipates that they should help improve and maintain the service reliability of Aqua Ohio's systems. The Staff conducted a physical verification of the projects where possible. All projects are complete and used and useful in rendering public utility service to its customers.

The Staff reviewed and analyzed the Applicant's revised Schedule 4 - Provision for Depreciation and Schedule 5 - Annualized Depreciation Associated with Additions and Schedule 6 - Annualized Reduction in Depreciation for Retirements. The Staff verified that the Applicant was using the correct accrual rates prescribed in Case No. 00-713-WW-AIR and that the calculations are correct.

The Staff finds the Applicant's infrastructure plant costs and corresponding depreciation are accurate and reasonable for purposes of establishing a System Infrastructure Improvement Surcharge. The proposed surcharge will recover only those costs specifically related to the Applicant's infrastructure improvements.

RATE OF RETURN

The date certain in this proceeding is not later than three years from the date that the Applicant's existing rates and tariffs went into effect. As a result, the pre-tax rate of return is based on information contained in the Applicant's rate filing from Case No. 07-564-WW-AIR and the rate of return on equity utilized in the stipulation attached to the May 14, 2008 Commission Order in that case.

Staff finds the Applicant's pre-tax rate of return is correct and consistent with the Commission's guidelines adopted in Case No. 03-2266-WW-SIC. The proposed surcharge will provide a fair and reasonable rate of return on the Applicant's June 25, 2008 filing date valuation of relevant infrastructure plant.

RATE AND TARIFFS

Revenue Distribution

Section 4909.172, Revised Code states that the surcharge to be assessed on each affected customer class of the company shall not exceed three percent of the rates and charges applicable to the class and in effect on the date the application was filed and, as to the allowed percentage increase, shall be uniform for each such class.

The Applicant filed a tariff with a proposed System Improvement Charge of 3.0000%. The proposed System Improvement Charge surcharge would apply to all bills issued after the approval of the tariff and would be in addition to the charges provided for in the tariff for all metered and private fire service in the Aqua Ohio Masury Division.

Staff finds that the proposed surcharge does not exceed three percent and is distributed uniformly to all classes.

Section 4909.172, Revised Code, also states that the Commission shall not authorize a company to have more than three surcharges in effect at any time. The Applicant has no existing System Improvement Surcharges in effect in the Masury Division. The surcharge is listed in Section 2, Sheet No. 1 of the Applicant's tariff as follows:

"In addition to the charges provided for in this tariff for all metered, private fire rates and public fire rates, a surcharge of 3% will apply to all bills issued after XXXXXXXX xx, 2008."

Staff finds the proposed layout to be reasonable and should be approved.

Staff finds that the proposed surcharge does not exceed the three surcharge maximum and should be approved.

Customer Notice

On August 12, 2008 the Applicant filed an amended customer notice. Staff has reviewed the Applicant's amended proposed customer notice and recommends that the amended customer notice be revised to include the filing date of the application.

STAFF RECOMMENDATION

After a thorough review, the Staff is of the opinion that Aqua Ohio's June 25, 2008 filing, as revised, is reasonable and recommends approval of the proposed surcharge.

