

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :
American Water Company for Authority to : Case No. 09-092-WW-SIC
Assess a System Improvement Charge. :
:

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**COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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**On behalf of the Staff of
The Public Utilities Commission of Ohio**

April 20, 2009

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TABLE OF CONTENTS

	Page
BACKGROUND	1
SCOPE OF INVESTIGATION	2
STAFF FINDINGS	3
OPERATING INCOME AND RATE BASE	3
Plant Infrastructure Additions and Depreciation	3
RATE OF RETURN	5
RATES AND TARIFFS	5
Revenue Distribution	5
Customer Notice	6
STAFF RECOMMENDATION	6
PROOF OF SERVICE	8

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BACKGROUND

Effective January 6, 2004, Section 4909.172, Ohio 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).

Pursuant to the Commission's guidelines, on February 9, 2009, Ohio American Water Company ("Ohio American" or "Applicant") filed an application proposing to collect a system improvement surcharge ("SIC" or "surcharge") in the following Districts: Ashtabula, Lawrence County, Mansfield, Marion (which includes portions of unincorporated areas of Washington Township in Marion County and Canaan Township in Morrow County, Pike County service area (Lake White), and Preble County service

area), and the Tiffin district in Seneca County. The proposed surcharge will not affect customers in Ohio American Districts in Franklin or Portage Counties. The surcharge will be applied monthly and will increase the monthly bills of average residential customers by varying amounts depending on the particular district in which a customer resides. An average residential customer in the Ashtabula, Lawrence County, Tiffin, Lake White, and Preble County Districts using 3,750 gallons of water per month will see an increase of \$0.73 per month. Average residential customers in the Marion and Mansfield Districts using an average 3,750 gallons per month will see an increase of \$0.77 per month. Residential customers that are billed a flat rate in the Mansfield District and will see an increase of \$0.81 per month.

The Applicant currently does not have a SIC in effect in any of its Ohio Districts.

On March 5, 2008, the Attorney Examiner assigned to this case issued an Entry establishing that comments in this case should be filed no later than April 20, 2009.

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 Staff tested the original cost of property for reasonableness by examining the Applicant's continuing property records. In addition, the Staff verified the existence and used and useful nature

of the assets via physical inspections and conducted other independent analyses as necessary.

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

OPERATING INCOME AND RATE BASE

Plant Infrastructure Additions and Depreciation

The Applicant is proposing to recover distribution system infrastructure improvements placed into service during the period July 1, 2007 through December 31, 2008 in the amount of \$4,441,388 in the three accounts shown below:

Account 343 (Mains)	\$	3,910,370
Account 345 (Service Replacements)		396,408
Account 348 (Hydrants)		<u>134,610</u>
Total	\$	4,441,388

The Staff selected several projects from each of the three accounts for in-depth evaluation. Specifically, the Staff reviewed sixteen projects totaling \$3,184,143, or approximately 72% of all plant additions requested in this case. The Staff examined supporting documentation including task orders, continuing property records (CPRs), payroll records, overheads, inventory control records, and selected invoices associated with accounts 343, 345, and 348.

The Staff determined that all projects requested in the February 9, 2009 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 Section 4909.172, Ohio Revised Code. Since the projects are replacement of aging distribution related facilities, 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 customers.

The Staff reviewed and analyzed the Applicant's Schedule 4 - Provision for Depreciation, Schedule 5 - Annualized Depreciation Associated with Additions, and Schedule 6 - Annualized Reduction in Depreciation for Retirements. The Staff verified that the Applicant used the correct accrual rates prescribed in the Applicant's most recent base rate case, *In the Matter of the Application of Ohio American Water Company for Authority to Increase its Rates for Water and Sewer Services Provided to its Entire Service Area*, Case No. 07-1112-WS-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 SIC. 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. 07-1112-WS-AIR and the rate of return on equity agreed to in the Stipulation and Recommendation approved by the November 12, 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 February 9, 2009 filing date valuation of relevant infrastructure plant.

RATES AND TARIFFS

Revenue Distribution

Ohio Revised Code Section 4909.172 states that the surcharge chargeable to 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 SIC of 2.0687% that will apply only to customers in the Ashtabula, Lawrence County, Mansfield, Marion, Lake White, Preble County, and Tiffin Districts. The proposed SIC will apply to all bills issued after the approval of the tariff except for contract customers US Yachiyo, Whirlpool, and Aqua

Ohio, Inc. and the Franklin and Portage County Districts and will be in addition to other charges provided for in the tariff.

After reviewing the proposed rates and tariff, the Staff concurs that the proposed SIC should not apply to the contract customers noted above or the Franklin and Portage County Districts. In addition, the Staff finds that the proposed SIC does not exceed three percent, does not over-recover proposed revenue, and is distributed uniformly to all classes. Therefore, the Staff finds the proposed SIC to be reasonable and recommends approval.

Customer Notice

The Staff has reviewed the Applicant's proposed customer notice and recommends that the date of the Company's Application be included in the customer notice in order to provide a specific reference. The first sentence of the third paragraph should be amended to read: "On February 9, 2009, Ohio American filed an application with the Public Utilities Commission of Ohio (PUCO) in Case No. 09-092-WW-SIC seeking authority to collect a SIC in the following districts..." With this amendment, the Staff finds the proposed notice to be reasonable and recommends its approval.

STAFF RECOMMENDATION

After a thorough review and with adoption of the Staff recommended amendment to the proposed Customer Notice, the Staff is of the opinion that Ohio American's February 9, 2009 filing is reasonable and recommends approval of the proposed surcharge.

Respectfully submitted,

Richard Cordray
Ohio Attorney General

Duane W. Luckey
Section Chief

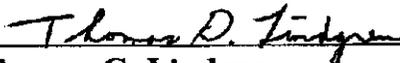
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On behalf of the Staff of
The Public Utilities Commission of Ohio

PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Comments, submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 20th day of April, 2009.



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