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PUCO

MARK S. YURICK
Direct 614.334.7197
myurick@cwsllaw.com

FILE

August 20, 2009

Ms. Renee Jenkins
Chief of Docketing
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43266-0573

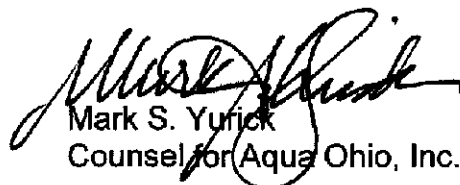
Re: In the Matter of the Application of Aqua Ohio, Inc. for Authority to Increase Rates
and Charges in Its Masury Division
PUCO Case No. 09-0560-WW-AIR

Dear Ms. Jenkins:

Attached for filing in the above-referenced case are the following:

1. Testimony of Richard A. Hideg on Behalf of Aqua Ohio, Inc. Masury Division;
2. Testimony of David R. Monie on Behalf of Aqua Ohio, Inc. Masury Division;
3. Testimony of Theodore C. Russell on Behalf of Aqua Ohio, Inc. Masury Division;
4. Testimony of Robert A. Kopas on Behalf of Aqua Ohio, Inc. Masury Division; and
5. Testimony of Robert G. Liptak on Behalf of Aqua Ohio, Inc. Masury Division.

Very truly yours,


Mark S. Yurick
Counsel for Aqua Ohio, Inc.

MSY/cis
Attachments

_____ Management Policies,
Practices and Organization

 X Operating Income

_____ Rate Base

_____ Allocations

_____ Rate of Return

 X Rates and Tariffs

_____ Other

AQUA OHIO, INC.

MASURY DIVISION

CASE NO. 09-0560-WW-AIR

DIRECT TESTIMONY OF

RICHARD A. HIDEG

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

| | | |
|--|---|-------------------------|
| In the Matter of the Application of Aqua Ohio, | : | |
| Inc. for Authority to Increase Rates and Charges | : | Case No. 09-0560-WW-AIR |
| in Its Masury Division | : | |

DIRECT TESTIMONY OF

RICHARD A. HIDEG

ON BEHALF OF
AQUA OHIO, INC.
MASURY DIVISION

1 **Q. Please state your name and business address.**

2 **A. My name is Richard A. Hideg. My business address is 6650 South Avenue,**
3 **Boardman, Ohio 44512.**

4 **Q. By who are you employed and in what capacity?**

5 **A. I am employed by Aqua Ohio, Inc. as its Controller.**

6 **Q. How long have you been associated with Aqua Ohio, Inc.?**

7 **A. I have been associated with Aqua Ohio, Inc. since July 2005.**

8 **Q. Generally, Mr. Hideg, what are your duties and responsibilities as Controller**
9 **of Aqua Ohio, Inc.?**

10 **A. As Controller, I am primarily responsible for the day-to-day operations of the**
11 **accounting department, which includes all financial reporting and budgeting, as**
12 **well as various administrative duties. Because of my responsibilities, with respect**
13 **to the financial aspects of the Company, I am also involved in the preparation of**
14 **rate increase applications.**

1 Q. **Please outline your educational background and business experience.**

2 A. I am a 1978 graduate of Youngstown State University with a Bachelor of Science
3 degree in Business Administration with a major in Accounting. From June 1980
4 to July 1998 I was employed by Consumers Ohio Water where I held various
5 accounting positions from property accountant to Assistant Treasurer. I was also
6 employed by Youngstown State University as Associate Director of Accounting
7 from July 1998 until June 2005. I was hired by Aqua Ohio, Inc. in July of 2005 as
8 Assistant Controller.

9 Q. **Do you have experience in the regulatory ratemaking process?**

10 A. Yes. In addition to my work in connection with this filing, I have been involved in
11 the preparation of the prior Consumers Ohio Water Company – Lake Erie East
12 Division filing, Case No. 95-1076-WW-AIR, Lake Erie Division filing Case No.
13 07-0564-WW-AIR, and filed testimony in those cases.

14 Q. **Are you familiar with the application filed by Aqua Ohio, Inc., in Public
15 Utilities Commission Case No. 09-0560-WW-AIR?**

16 A. Yes, I am. My direct testimony in this case is in support of the SFR schedules on
17 which I am identified as the “Witness Responsible”.

18 Q. **Are you sponsoring any sections in the proceeding?**

19 A. Yes, I am sponsoring the following sections of the Commission’s Standard Filing
20 Requirements (SFRs) for Large Utilities: Section C (Operating Income) and
21 Section E (Rates and Tariffs) except for Schedules E-3.1 and E-3.2 (“Fixed
22 Charges Rationale” and “Cost of Service and Tariff Design Studies”) which will
23 be sponsored by Mr. David R. Monie. These schedules, which are attached to the

1 application, are provided to assist the Commission in determining Aqua Ohio,
2 Inc., Masury Division's revenue requirement.

3 **Q. Turning to the SFR schedules you are sponsoring, please explain what is**
4 **contained on Schedule C-1.**

5 A. This schedule contains the Masury Division's actual income statement for the
6 twelve months ended December 31, 2008, the test year in this proceeding, and
7 reflects 12 months of actual data as adjusted for ratemaking purposes. As shown
8 on the schedule, the Masury Division would, on an adjusted test year basis,
9 experience an operating loss of (\$43,263) under its current rates, which produces
10 a rate of return of -1.98%. The proposed rates would, on a pro forma basis,
11 produce operating income of \$190,066 which represents a rate of return on the
12 Company's rate base of 8.68%.

13 **Q. What is the nature of the amounts shown in the Schedule C-2, Column (C),**
14 **captioned "Adjustments"?**

15 A. These amounts are adjustments to reflect conditions existing at the time of the
16 filing of the Application or events that are anticipated during the test year, which
17 did not prevail during the entire test year. When applying the adjustments to the
18 amounts in Column (B), the operating income loss is increased to (\$43,263) as
19 shown on Schedule C-2, Column (D).

20 **Q. Could you describe your adjustment totaling \$14,778 to Operating Revenues**
21 **on Schedule C-2, Column (C), Line 7?**

22 A. The revenue in Column B of Schedule C-2 reflects the actual revenue for 12
23 months ending December 31, 2008. The consumption and revenue as stated on

1 E-4 represent the actual consumption for the 12 months ending June 30, 2008.
2 The revenues shown on C-2, Column B, Line 3 of \$378,932 is subtracted from
3 the annualized total revenue of \$387,580 on Schedule E-4, Column I, Line 10 to
4 compute the net adjustment as shown on C-3.1 of \$8,648.

5 The adjustment to private fire protection (Unmetered Sales Revenue) is
6 the difference between the amount shown on Schedule C-2 that represents 12
7 months actual, and Schedule E-4 that represents the annualized revenue for
8 service at June 30, 2008. This adjustment is (\$6,347) and is shown on Schedule
9 C-3.2.

10 The adjustment to other operating revenue is the difference between the
11 amount shown on Schedule C-2 that represents 12 months actual, and Schedule E-
12 4 that represents the other operating revenue for the 12 months ending June 30,
13 2008. This adjustment is \$12,477 and is shown on Schedule C-3.3.

14 **Q. Would you please describe the adjustments under the heading "Operating**
15 **Expenses" of Schedule C-2, Column C, Line 14?**

16 **A.** The adjustments are as follows:

- 17 1. Purchased water expense was adjusted \$4,099 to reflect a rate increase.
18 The adjustment of \$4,099 is reflected on Schedule C-3.24.
- 19 2. Postage and processing fees were adjusted \$2,982 to reflect a change from
20 bi-monthly billing to monthly billing.
- 21 3. The uncollectible accounts expense must be adjusted to reflect the
22 adjusted revenues on Schedule E-4. Schedule C-3.6, Line 6, shows an
23 uncollectible expense percentage of .33566% and results in a test-year

1 uncollectible expense of \$16,194, which, if subtracted from the amount in
2 the test year of \$12,784 requires an adjustment of \$3,410.

3 4. The rate case expense for this case is estimated to be \$96,000 on Schedule
4 C-8, Column B, Line 9. A three-year amortization period would result in
5 increasing test year expenses by \$32,000 as shown on Schedule C-3.7.

6 5. The estimated annual amortization of tank painting cost for the one water
7 tank in the system is \$14,936, which compares to the test-year
8 amortization of tank painting of \$11,604. This results in a test-year
9 adjustment of \$3,332 as shown on C-3.8.

10 The sum of the above paragraphs one through five totals \$45,823, the adjustment
11 in Column C line 12 of Schedule C-2.

12 **Q. Would you explain your adjustments to depreciation expense on Schedule**
13 **C-2, Column C, Line 16?**

14 A. The depreciation expense in Column B of Schedule C-2 includes depreciation on
15 assets placed in service as of June 30, 2008.

16 It has been the Commission's procedure to calculate the annual
17 depreciation expense on the property in service at a date certain; therefore, this
18 calculation has been made on Schedule B-3.2, Page 11 of 11, Column F, as
19 \$66,542, resulting in additional depreciation expense of \$3,350 as shown on
20 Schedule C-3.9.

21 **Q. Would you explain your computations to arrive at the adjustment of**
22 **(\$13,082) decreasing Taxes Other Than Income on Schedule C-2, Column C,**
23 **Line 18?**

1 A. The "Taxes Other Than Income" adjustment is made up of property taxes, and
2 excise taxes as follows:

- 3 1. The test year property taxes before adjustment of \$154,428 on Schedule
4 C-2.1, Page 7 of 8, Column E, Line 14, were computed before the actual
5 rates and valuation were known for the year 2007, and estimates were
6 used for the year 2008. At the time the application was prepared
7 additional information was known and a computation to recalculate the
8 property taxes was made which resulted in an adjustment to increase
9 property taxes by \$4,550 as shown on C-3.10. The assessed valuation at
10 date certain is based on the plant in service property times the assessed
11 valuation percentage from December 31, 2007. The assessed valuation
12 times the average property tax rate of \$83.69 per \$1,000 equals \$158,978.
- 13 2. The excise tax before the adjustment to operating revenues is \$39,832 on
14 Schedule C-2.1, Page 7 of 8, Column E, and Line 15. After the
15 annualization of operating revenues, the excise tax (4.75%) is \$22,148,
16 requiring an adjustment to decrease excise tax expense by (\$17,684)
17 which is shown on Schedule C-3.11.

18 The two adjustments above total (\$13,134).

19 **Q. Would you explain your computation of the adjustment to Federal Income**
20 **Tax on Schedule C-2, Column C, Line 19?**

21 A. Federal Income Tax adjustment is shown on Schedule C-3.13, which computes
22 the Federal Income Tax expense beginning with the pretax operating loss of the
23 unadjusted amounts on Schedule C-2 of (\$21,056). The Federal Income Tax is

1 added back to arrive at pre-tax operating income. The adjustments from Schedule
2 C-3 are applied, as well as the jurisdictional book-to-tax adjustments from
3 Schedule C-4, which results in an adjusted taxable income of (\$163,768).
4 Applying a tax rate of 35% to that amount results in a current tax payable of
5 (\$57,319). In addition, the investment tax credit of (\$1,488) and the deferred
6 taxes of \$8,072 results in a Federal Income Tax expense of (\$50,735).
7 Comparing this amount to the amount shown on Schedule C-2 of (\$51,635)
8 results in an adjustment to expense on Schedule C-3.13 of \$900.

9 **Q. Mr. Hideg, would you summarize your Schedule C-3 and how it relates to**
10 **your test-year operating income?**

11 A. Schedule C-3 shows the adjustments by income statement grouping. The net of
12 the Total Revenue Adjustments and Total Expense Adjustments is (\$22,207) and
13 can be found on Schedule C-2, Column C, Line 23. Applying the adjustments to
14 the unadjusted column results in Column D, "Adjusted Revenue and Expenses".
15 The adjusted test year operating loss is (\$43,263) and the amounts in Column D
16 are carried forward to Schedule C-1, Column B.

17 **Q. Mr. Hideg, you are the witness responsible for Section E, am I correct?**

18 A. Yes. I am responsible for Section E.

19 **Q. Please explain Schedule E-1, Schedule E-1a pages 1 and 2 of 2, and Schedule**
20 **E-1b, Pages 1 and 2 of 2.**

21 A. Schedule E-1, Pages 1 to 4 are copies of the proposed tariff sheets as filed with
22 the "Notice of Intent to File" and if applied to the current consumption will

1 generate the revenue requested on Schedule C-1. Mr. Monies' Cost of Service
2 testimony calculates the proposed rates according to the P.U.C.O. methodology.

3 **Q. Please explain Schedule E-2 Pages 1 to 4.**

4 A. Schedule E-2, Pages 1 to 4 are copies of the tariff sheets that are currently in
5 effect for the Masury Division of Aqua Ohio, Inc.

6 **Q. Please explain Schedule E-4.**

7 A. Schedule E-4 summarizes the proposed and current revenue annualized. The
8 Metered Sales (Residential, Commercial, Industrial, and Other Utilities)
9 represents the actual consumption for the 12 months ending June 30, 2008. A fire
10 rate analysis was prepared as of June 30, 2008 recapping the Private Fire
11 Protection billings. The increase in Forfeited Discounts is based on the increase in
12 Metered Revenue. An increase was anticipated in Miscellaneous Revenue.

13 **Q. Please describe Schedule E-5, Pages 1 thru 3.**

14 A. Schedule E-5 pages 1 thru 3 compares the current Masury Division bill to the
15 proposed Masury Division bill at various levels of consumption and by customer
16 class. It also shows what the increase and percent of increase for each level of
17 consumption shown.

18 **Q. Does this conclude your direct testimony?**

19 A. Yes, it does.

20 B.

21 C. ND: 4818-6343-0148, v. 1

_____ Management Policies,
Practices and Organization

_____ Operating Income

_____ Rate Base

_____ Allocations

_____ Rate of Return

 X Rates and Tariffs

 X Other

AQUA OHIO, INC.

MASURY DIVISION

CASE NO. 09-0560-WW-AIR

DIRECT TESTIMONY OF

DAVID R. MONIE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Aqua Ohio, Inc. :
Authority to Increase its Rates and Charges in : Case No. 09-0560-WW-AIR
it's Masury Division :

DIRECT TESTIMONY OF

DAVID R. MONIE

ON BEHALF OF
AQUA OHIO, INC.
MASURY DIVISION

1 **Q: Please state your full name and address.**

2 A: My name is David R. Monie. I live at 1 Ternberry Court, Turnersville, NJ 08012.

3 **Q: What is your business affiliation?**

4 A: I am President of G.P.M. Associates Inc., a water engineering and management
5 consulting firm located at 1920 Frontage Road, Suite 110, Cherry Hill, NJ 08034.

6 **Q: Please state your educational, professional, and business background and**
7 **experience leading up to your current position.**

8 A: I am a 1966 graduate of Tufts University in Medford, MA. with a B. S. Degree in Civil
9 Engineering. After graduating from Tufts, I spent approximately three years in the
10 United States Army including one year as Executive Officer of the Post Engineer Office
11 at Ft. Monmouth, NJ and one year as a Staff Engineering Officer for the 29th General
12 Support Group in Long Binh, Republic of Vietnam. After leaving the Army, I spent
13 seven years with the Consumers Water Company System, then the parent company of
14 Consumers Ohio Water Company which is now part of Aqua Ohio, Inc., including one
15 year as a Staff Engineer in the home office and six years as an Engineer and District
16 Manager with Consumers New Jersey Water Company, then known as Garden State

1 Water Company. While with Consumers, I had various positions in management and
2 engineering. I spent a great deal of time working on rate increase applications and was
3 considered the "Cost of Service" expert for the Consumers System during my last several
4 years with the company. As such, I performed Cost of Service Studies for Garden State
5 Water Company and Hudson Water Company, another subsidiary of Consumers. In
6 November of 1976, I left Consumers and became President of G.P.M. Associates Inc.

7 **Q. What are your responsibilities as President of G.P.M. Associates Inc.?**

8 R. Since joining G.P.M. Associates Inc., I have continued my experience in the water utility
9 management and engineering fields, including consulting on a large number of rate
10 increase applications. As an independent consultant, I have provided Cost of Service
11 Studies and Tariff Designs in California, Delaware, New Hampshire, Illinois, New
12 Jersey, Pennsylvania and Ohio. I have performed these studies for investor owned water
13 companies, municipal systems and water authorities. In addition, I have provided the
14 Tariff Design for many rate increase applications, some of which did not include Cost of
15 Service Studies.

16 **Q: Are you a member of any professional organizations?**

17 A: Yes, I am a member of the National Society for Professional Engineers, in which I am the
18 Treasurer of the South Jersey Chapter; the American Water Works Association and the
19 National Association of Water Companies, in which I served several years as a member
20 of the Rate Design Subcommittee and two terms as Chairman of the Small Water
21 Companies Committee as well as a term as Chairman of the New Jersey Chapter. I am
22 now the small company representative to the Executive Committee and Board of
23 Directors of NAWC. I am a Past President of the South Jersey Association of Water
24 Superintendents.

25 **Q. Have you previously testified in regulatory matters?**

26 R. Yes, I have.

27 **Q: What is the purpose of your testimony in this proceeding?**

1 A: The purpose of my testimony here is to sponsor the study entitled "Aqua Ohio, Inc.
2 Masury Division Cost of Service and Tariff Design Studies" that is being filed with the
3 rate increase application as Schedule E-3.2. This study was performed under my direct
4 supervision and control.

5 **Description of Studies**

6 **Q: Briefly describe these studies.**

7 A: The Cost of Service Study was undertaken to determine the relative cost of providing
8 water service to the various customer classes of the Masury Division of Aqua Ohio, Inc.
9 ("Masury"). Masury currently serves approximately 1,473 metered customers. The
10 results of the cost of service study were then used to prepare the proposed tariff design
11 that has been included on Table 13 of Schedule E-3.2. The rate base and expenses
12 detailed in the cost of service study were taken from the filing for the rate increase by
13 Masury such that the total cost of service equals the total revenue requirement.

14 **Q: Please describe the method by which you allocated the costs of service.**

15 A: I used the base-extra capacity method of allocating costs. The basis for this methodology
16 is in the Water Rates Manual M1 of the American Water Works Association, Fifth
17 Edition.

18 **Q: How are your studies organized?**

19 A: The narrative portion of the report both summarizes the findings and describes the Cost
20 of Service and Tariff Design Studies. Following the narrative are fourteen tables which
21 set forth the calculations for both allocating the cost and proving out the revenue to be
22 received at present rates and by using the proposed tariff design.

23 **Q: Please describe how the study allocated the costs.**

24 A: The narrative portion of the study describes the various calculations made; however, I
25 will briefly summarize the study. The base-extra capacity method allocates the cost to
26 the various customer classes by allocating the cost items of operation and maintenance
27 expenses, income and property taxes, other taxes, depreciation expense and income

1 available for fixed charges to the base, extra capacity maximum day, extra capacity
2 maximum hour, customer and direct fire protection functional cost components.
3 Estimated units of service are then determined by customer class for the above cost
4 components. The unit cost of service for the various cost components are then calculated.
5 The total cost of service by customer class is then calculated.

6 Table 1 determines the allocation ratios for the base and extra capacity functions.
7 These ratios are based on the average day to maximum day and average day to maximum
8 hour usage levels. Tables 2 and 3 allocate the plant investment (rate base) and operation
9 and maintenance expenses to the functional cost components using the allocation ratios
10 determined in Table 1. Those items principally designed to meet maximum daily
11 requirements are allocated by the maximum day ratio developed on Table 1. Those items
12 principally designed to meet maximum hour requirements are allocated by the maximum
13 hour ratio also developed on Table 1. Those items principally used for customer services
14 are allocated to the customer cost component and those items used only for fire protection
15 are allocated to the direct fire protection cost component. Table 4 summarizes the results
16 of the calculations on Table 3 as well as showing the breakdown by functional cost
17 component for income and property taxes; other taxes; income available for fixed charges
18 and depreciation expense. Income and property taxes were allocated based on the
19 allocations of plant investment as determined on Table 2; other taxes were allocated
20 based on the allocation of operation and maintenance expenses developed on Table 3;
21 income available for fixed charges was allocated based on the plant investment
22 allocations developed on Table 2 and depreciation expense was likewise allocated based
23 on the plant investment allocations developed on Table 2. Table 5 shows the calculation
24 of the estimated units of service by customer class. The non-coincidental extra capacity
25 factors by customer class were based on experience and normal utility practice. The
26 extra capacity factors are similar to those used in the last rate case (Case No. 00-0713-
27 WW-AIR). The customer equivalent units are based on the AWWA schedule of

proportionate meter capacities as required by the PUCO and as currently used to set the relationship between the customer charge for a 5/8 inch meter and the other meter sizes. The customer equivalent units were developed on a schedule (WP5a) attached to Table 5. The fire protection equivalent units were allocated between private fire protection and public fire protection based on the cross sectional area of the connection. There is a schedule developing this breakdown (WP5b) also attached to Table 5. The unit cost of service is calculated on Table 6 and then spread by customer class on Table 7. The study describes the actual calculations in detail.

Q: What did your Cost of Service Study conclude?

A: Table 7 and Table 14 show the revenues that should be produced from each customer class. Table 14 shows, in addition to the revenues which the Cost of Service Study suggests should be received from the various customer classes, the revenues received from the various customer classes at current and proposed rates. As can be seen on Table 14, revenues from the Residential and commercial classes are more than their cost of service while revenues from the public and private fire service classes are less than their cost of service at current rates.

Q: Mr. Monie, did you prepare the tariff design for the proposed rates based on the results of the Cost of Service Study?

A: Yes.

Q: Mr. Monie, please describe how you designed the proposed rates.

A: With respect to the public and private fire charges, as can be seen from Table 14 of the Cost of Service Study, both categories of fire protection charges produce revenues significantly less than their cost of service. This is true even though the Cost of Service Study used extra demand factors for fire protection that are low, as more fully set forth in the narrative portion of the Cost of Service Study. To address this situation, it is proposed to increase the private and public fire service rates by 100%. The appropriate Customer Charge for a typical customer with a 5/8 inch meter is calculated on Table 13

1 of the Cost of Service Study. This method is the recommended method of the PUCO.
2 The Customer Charge for a 5/8 inch meter was set at the calculated level of \$10.93 per
3 month. The Customer Charge for the other meter sizes were set proportional to the
4 AWWA meter capacities. Once the revenues from the proposed rates Customer Charge
5 and Public and Private Fire Service Charges were determined, the two blocks in the usage
6 charges were increased to produce revenues that are approximately equal to the revenue
7 requirement in the rate filing. This is detailed more fully in the narrative portion of the
8 Cost of Service Study.

9 **Q: How does this proposed change in the tariff design affect the relationship between**
10 **revenues and cost of service for the various customer classes?**

11 A: All customer classes will have revenues in closer proximity to their cost of service under
12 the proposed rates than under current rates. This can be seen on Table 14 which is
13 attached to the Cost of Service Study (Schedule E-3.2).

14 **Q: Mr. Monie, does this complete your testimony at this time?**

15 A: Yes.
16

17 ND: 4836-4207-7188, v. 1

_____ Management Policies,
Practices and Organization

_____ Operating Income

~~X~~ Rate Base

~~X~~ Allocations

_____ Rate of Return

_____ Rates and Tariffs

_____ Other

AQUA OHIO, INC.

MASURY DIVISION

CASE NO. 09-0560-WW-AIR

DIRECT TESTIMONY OF

THEODORE C. RUSSELL

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Aqua Ohio, Inc. :
Authority to Increase its Rates and Charges in : Case No. 09-0560-WW-AIR
it's Masury Division :

DIRECT TESTIMONY OF
THEODORE C. RUSSELL

ON BEHALF OF
AQUA OHIO, INC.
MASURY DIVISION

1 **Q. Would you please state your name and address for the record?**

2 A. My name is Theodore C. Russell. My business address is 6650 South Avenue,
3 Boardman, Ohio 44512.

4 **Q. Mr. Russell, by whom are you employed and in what capacity?**

5 A. I am an Accountant with Aqua Ohio, Inc.

6 **Q. Will you briefly describe your educational background?**

7 A. I graduated with a Bachelor's Degree in Business Administration from
8 Youngstown State University in 1980. My major field of study was Accounting
9 with a minor in Economics and Finance.

10 **Q. How long have you been employed by Aqua Ohio, Inc?**

11 A. Since March 17, 1981.

1 **Q. Generally, Mr. Russell, what are your duties and responsibilities as an**
2 **Accountant for Aqua Ohio, Inc?**

3 **A.** Primarily, my duties are the maintenance of the property records for Aqua Ohio,
4 Inc. This includes tracking construction work in progress through our activity
5 module, maintaining our fixed capital system and calculating depreciation. I am
6 also responsible for the calculation and maintenance of our book and tax
7 depreciation records. Responsibility also includes maintaining the detail for the
8 deferred tax accounts, compiling information for various annual reports, such as
9 the PUCO, Ohio State Tax Commission, independent auditors schedules, and
10 audit and tax packages for our parent company, Aqua America, Inc. I also review
11 and assist with the record keeping for Advances, Related Facilities and
12 Contributions.

13 Also within the realm of my responsibility is the preparation of the
14 Standard Filing Requirements (SFR) for rate cases, assisting PUCO Staff
15 members during their field review of the filing, and providing testimony in
16 support of certain portions of the filing documents. These duties are performed
17 under the direction of the Vice President - Finance.

18 **Q. Are you familiar with the application filed by Aqua Ohio, Inc. in Public**
19 **Utilities Commission of Ohio Case No. 09-0560-WW-AIR?**

20 **A.** Yes, I am. I was directly responsible for the preparation of the rate base section
21 of the Standard Filing Requirements (SFR). My direct testimony for this case is
22 in support of the SFR schedules on which I am identified as the "Witness
23 Responsible".

1 **Q. Your name appears on certain schedules included in Section B-Rate Base.**

2 **Please explain these schedules.**

3 A. Schedule B-2.3 was the first schedule to be completed in determining the rate
4 base for this case and was completed as follows. Each property account for the
5 total Masury Division and the total Service Center was listed and identified by the
6 property NARUC number and description in Columns (A) and (B). The Total
7 Division Beginning Balance Column (C) shows the original cost of the Plant in
8 Service at the last Dates Certain of January 31, 2000 as it was included in Case
9 No's. 00-713-WW-AIR. The original cost of additions, Column (D), retirements,
10 Column (E) and transfers, Column (F), made between February 1, 2000 and June
11 30, 2008 for the Masury Division are listed by account and are used to determine
12 the Total Division Ending Balance original cost, Column (I) of Plant in Service at
13 Date Certain June 30, 2008.

14 **Q. Mr. Russell, how do you define original cost?**

15 A. "Original cost", as applied to utility plant, means the cost of such property to the
16 person first devoting it to public service.

17 **Q. How is the original cost of the various items of property determined?**

18 A. Records are maintained by Aqua Ohio, Inc., Masury Division in compliance with
19 the Uniform System of Accounts for Class A and B Water Utilities. The original
20 cost of each item of property is recorded by project number in the activity
21 module. After each item of property has been placed in service or retired, the
22 appropriate original cost is transferred from construction work in progress to fixed
23 capital.

1 Beginning with the fixed capital ledger account balances, each transfer to
2 the fixed capital ledger is checked to assure that the proper original cost has been
3 added or subtracted. Each authorization for expenditure or retirement is examined
4 and analyzed for accuracy and, in most cases; the appropriate ledger entries are
5 also analyzed.

6 **Q. How do you determine that the various items of property are in service at the**
7 **date certain?**

8 A. Each activity provides a completion report on which is recorded the date
9 completed, and date in service. The date in service is used for that determination.

10 **Q. Describe how schedule B-2 is completed.**

11 A. After completing Schedule B-2.3, the Total Division Ending Balance, Column (I),
12 amounts were carried forward as applicable to Schedule B-2.1, Column (C). As
13 required by the SFR, these balances were then allocated and adjusted to determine
14 the Adjusted Jurisdictional, Column (G), Plant in Service at Date Certain,
15 June 30, 2008. The property records are maintained separately by Aqua Ohio,
16 Inc. for each of its operating divisions and therefore the Total Division, Column
17 (C) amounts shown on Pages 1 thru 7 on Schedule B-2.1 are allocated 100% to
18 the Masury Division and are restated in Column (E) as the Allocated Total. The
19 Service Center Plant in Service is used to serve all the operating divisions of Aqua
20 Ohio, Inc. and therefore is allocated at 1.79% for the Masury Division. The
21 1.79% allocation percentage is developed on Schedules B-7 and B-7.1 using the
22 net plant of the Masury Division divided by the sum of the net plant of all the
23 operating divisions less the Service Center net plant. The Allocated Total,

Column (E), as shown on Page 8 and 9 and on Lines 1 thru 24 on Page 10 of Schedule B-2.1 are the amounts applicable to the Masury Division for the Service Center General Plant. Line 29, Column (E), Page 10 of Schedule B-2.1 shows the total Masury Division and allocated Service Center Plant in Service at Date Certain June 30, 2008 in the amount of \$3,332,634.36.

The adjusted jurisdictional original cost balances are then carried forward to Schedule B-2 by Major Property Groupings and this total is then carried forward to Line 1 on Schedule B-1. The Total Plant in Service at Date Certain, June 30, 2008 is \$3,332,634. The next component of rate base to be considered was the Depreciation Reserve. The Total Division Ending Balance, Column (I) of Schedule B-2.3 was restated on Schedule B-3 as Total Division Plant Investment, Column (C). The account balances for the depreciation reserve were then set forth in Column (D) and allocated and adjusted using the same procedure as was used for the Plant in Service in Schedule B-2.1. The total Masury Division and allocated Service Center Reserve for Accumulated Depreciation as of June 30, 2008 shown on Schedule B-3, Page 10 of 10, Line 28, under Adjusted Jurisdiction, Column (H) is \$880,444.77. The same amount is restated on Schedule B-1, Page 1 of 1, Line 4 under Company Proposed Amount, Column (C) as \$880,445.

Q. How was schedule B-6 completed?

A. Contributions in Aid of Construction are set forth on Schedule B-6 and then carried forward to Line 13 of Schedule B-1 as \$107,086.

1 Line 19 of Schedule B-1 sets forth an amount of \$149,328 as Other Items.
2 This amount includes the Pre-1971 three percent and the 1971 four percent
3 Investment Tax Credits, the Deferred Income Tax from Liberalized Depreciation
4 and Deferred Income Tax on contributed property, all of which are identified on
5 Schedule B-6.

6 **Q. Mr. Russell, would you now summarize Schedule B-1?**

7 A. Yes. At Date Certain June 30, 2008, the Plant in Service less Depreciation
8 Reserve, less Contributions in Aid of Construction, Advances for Construction,
9 and Other Items results in a Jurisdictional Rate Base of \$2,188,763 for the Masury
10 Division.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes.

13

14

15 ND: 4821-3206-2212, v. 1

_____ Management Policies,
Practices and Organization

_____ Operating Income

_____ Rate Base

_____ Allocations

_____ Rate of Return

_____ Rates and Tariffs

 X Other

AQUA OHIO, INC.

MASURY DIVISION

CASE NO. 09-0560-WW-AIR

DIRECT TESTIMONY OF

ROBERT A. KOPAS

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Aqua Ohio, :
Inc. for Authority to Increase Rates and Charges : Case No. 09-0560-WW-AIR
in Its Masury Division :

DIRECT TESTIMONY OF

ROBERT A. KOPAS

ON BEHALF OF
AQUA OHIO, INC.
MASURY DIVISION

1 Q. **Please state your name and business address.**

2 A. My name is Robert A. Kopas. My business address is 6650 South Avenue,
3 Boardman, Ohio 44512.

4 Q. **By who are you employed and in what capacity?**

5 A. I am employed by Aqua Ohio, Inc. as Regional Controller. I also serve as Vice
6 President of Finance.

7 Q. **How long have you been associated with Aqua Ohio, Inc.?**

8 A. I have been associated with Aqua Ohio, Inc. since September 1998. Prior to that I
9 was employed by Consumers Pennsylvania Water Company-Shenango Valley
10 Division.

11 Q. **On whose behalf are you offering testimony in this proceeding?**

12 A. I have been authorized to appear and testify on behalf of Aqua Ohio, Inc., Masury
13 Division, the applicant in this case. As Vice President of Finance for the company

1 I have overall responsibility for the accounting records of the company and have
2 overseen preparation of all sections of this application.

3 **Q. Please outline your educational background and business experience.**

4 A. I am a 1976 graduate of Pennsylvania State University with a Bachelor of Science
5 degree in Finance. I later attend Youngstown State University part time to secure
6 additional accounting credit hours. From 1977 to 1984, I was employed by
7 General American Transportation Corporation where I held various accounting
8 positions including Accounting Supervisor and Cost Analyst. I joined Consumers
9 Pennsylvania Water Company-Shenango Division in 1984 and began my position
10 as Vice President of Finance for Aqua Ohio, Inc. in September 1998. I became
11 Regional Controller for Aqua's Northern States in April 2006. I am registered in
12 Ohio as a Certified Public Accountant.

13 **Q. Do you have experience in the regulatory ratemaking process?**

14 A. Yes. In addition to my work in connection with this filing, I have been involved in
15 the preparation of the prior Aqua Ohio-Lake Division filings (Case No. 03-2290-
16 WW-AIR and 07-0564-WW-AIR) and the last five Masury Water Company rate
17 applications submitted to this Commission (Case No. 90-331-WW-AIR, Case No.
18 93-213-WW-AIR, Case No. 95-357-WW-AIR, Case No. 97-1544-WW-AIR and
19 case No. 00-713-WW-AIR), and have filed testimony in each of those
20 proceedings. I have also participated in a number of proceedings before the
21 Pennsylvania Public Utility Commission in connection with rate filings by
22 Consumers Pennsylvania-Shenango, Roaring Creek, and Susquehanna Water

1 Companies and have testified before the Indiana Utility Regulatory Commission
2 on behalf of Aqua Indiana, Inc.

3 **Q. Did you prepare the application which is the subject of this proceeding?**

4 A. Yes. With the assistance of other company officers and personnel. In accordance
5 with the Commission's rules, Mr. Robert Liptak, Aqua Ohio, Inc.'s President, and
6 I signed and verified the application.

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. Under Ohio's statutory rate making formula, which is generally consistent with
9 the traditional practice in other regulatory jurisdictions, the rates approved by the
10 Commission in this proceeding must generate gross annual revenues sufficient to
11 cover the costs incurred by the company in providing service to its customers and
12 provide a reasonable return on the investment in property and facilities used in
13 providing such service. My testimony supports the reasonableness of the
14 Company's capital structure and cost of debt and cost of equity.

15 **Q. Are you sponsoring any sections in the proceeding?**

16 A. Yes, I am sponsoring the following section of the Commission's Standard Filing
17 Requirements (SFRs) for Large Utilities: Section D (Rate of Return).

18 **Q. Mr. Kopas, you said you are responsible for Section D, please explain what is**
19 **contained on Schedule D-1.**

20 A. Schedule D-1 is entitled "Rate of Return Summary" and, under the SFR format,
21 includes information necessary to compute the weighted cost of capital of the
22 Company. Schedule D-1 shows that Aqua Ohio, Inc. has no preferred stock and,

1 thus, has a capital structure made up of 49.55% long term debt and 50.45%
2 common equity.

3 **Q. Please explain Schedule D-2.**

4 A. Schedule D-2 shows Aqua Ohio, Inc.'s short-term debt obligations, as of the date
5 certain, along with the applicable interest rate and the annualized interest
6 requirement.

7 **Q. Please explain Schedules D-3 and D-4.**

8 A. Schedules D-3 and D-4, show the embedded cost of debt and preferred stock
9 respectively, of the Company. As I previously indicated, Aqua Ohio, Inc. has no
10 preferred stock. As calculated on Schedule D-3 the embedded cost of debt for
11 Aqua Ohio, Inc. is 6.34%.

12 **Q. Have you determined an appropriate rate of return to be applied to the rate**
13 **base valuation for purposes of establishing a reasonable earnings**
14 **opportunity for Aqua Ohio, Inc.?**

15 A. Yes.

16 **Q. By what principles should the Commission be guided in determining a fair**
17 **rate of return for purposes of this proceeding?**

18 A. The United States Supreme Court, in its decisions in *Bluefield Waterworks*
19 *Company v. Public Service Commission*, 262 U.S. 679 (1923), and *Federal*
20 *Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944), detailed
21 what have come to be regarded as the basic standards for determining a fair rate
22 of return. As summarized by the Commission staff in the Staff Report of
23 Investigation issued December 20, 1996 in Copley Square Water Company, Case

1 No. 96-573-WW-AIR (at page 12), these cases establish that the rate of return
2 authorized should be commensurate with the returns being earned on investments
3 in other business undertakings having similar or corresponding risks, and should
4 be sufficient to enable the regulated utility to maintain its credit standing and
5 financial integrity and attract capital at reasonable costs.

6 **Q. What type of analysis have you performed in developing a recommendation**
7 **of an appropriate rate of return for Aqua Ohio, Inc. for purposes of this**
8 **case?**

9 A. I have performed a weighted average cost of capital analysis to provide evidence
10 of a fair rate of return for Aqua Ohio, Inc..

11 **Q. What is a weighted average cost of capital analysis?**

12 A. A firm's total capitalization is typically comprised of long-term debt, preferred
13 stock, and common equity. Each component of the capital structure has a cost
14 rate associated with it. Identifying that cost rate, applying it to the ratio of the
15 relevant component to the total capitalization, and summing the results for all
16 three components produces the overall weighted cost of capital to the company.
17 The result of this analysis, which is in keeping with the *Bluefield* and *Hope*
18 standards discussed above, serves as evidence of a fair rate of return for the firm
19 under study.

20 **Q. Does not short-term debt also represent a component of a firm's total**
21 **capitalization?**

22 A. While short-term debt is obviously also a source of capital, because short-term
23 borrowings are typically rolled over into long-term obligations, some regulatory

1 commissions do not regard short-term debt as a separate component of the capital
2 structure of the firm under study. I understand that, historically, this has been the
3 Ohio Commission's practice. Thus, I have followed this Commission's
4 customary practice and excluded short-term debt for purposes of my analysis in
5 this case.

6 **Q Has the Company filed a motion for approval of a waiver in the timing for**
7 **filing expert testimony on Rate of Return?**

8 **A** Yes, it has.

9 **Q What was the Company's purpose for requesting a waiver?**

10 **A** The purpose of the waiver is to avoid the additional cost of supplying expert
11 testimony pertaining to rate of return. The Company believes and hopes that this
12 rate increase application can be resolved without incurring such cost, thereby
13 keeping rate case costs down. The Company serves a very small number of
14 customers and any additional cost necessary to prepare a rate case has a
15 disproportionate impact on the cost of water to the customer.

16 **Q. Does this conclude your direct testimony?**

17 **A.** Yes, it does.

18 **B.**

19 **C.** ND: 4832-2251-5716, v. 1

☒ Management Policies,
Practices and Organization

☐ Operating Income

☐ Rate Base

☐ Allocations

☐ Rate of Return

☐ Rates and Tariffs

☒ Other

AQUA OHIO, INC.

MASURY DIVISION

CASE NO. 09-0560-WW-AIR

DIRECT TESTIMONY OF

ROBERT G. LIPTAK

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

Case No. 09-0560-WW-AIR

DIRECT TESTIMONY OF
ROBERT G. LIPTAK

ON BEHALF OF
AQUA OHIO, INC.
MASURY DIVISION

1 **Q. Would you please state your name and business address?**

2 A. My name is Robert G. Liptak and my business address is 665 South Dock Street,
3 Sharon, PA 16146.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Aqua America, Inc. as Regional President-Northern
6 Operations.

7 **Q. Please outline your educational and professional background.**

8 A. I graduated from Bucknell University in 1970 with a Bachelor of Science in Civil
9 Engineering. I am a licensed professional engineer in New Jersey.

10 **Q. How long have you been employed by the Company?**

11 A. Since 1977.

12 **Q. Would you please outline relevant positions you have held with the Company**
13 **or other water service companies in your career?**

1 A. In 1977, after 3 years as a hydraulic engineer with the New Jersey Department of
2 Environmental Protection and 4 years as project engineer with a consulting firm, I
3 joined the Consumers family of water utilities working for Garden State Water
4 Company (now Aqua New Jersey). I was Vice President of Engineering for
5 Garden State Water Company until becoming President and CEO of Consumers
6 Pennsylvania Water Company in 1981. After the merger of Consumers Water
7 Company with Philadelphia Suburban Corporation in 1999, I was named
8 President of Consumers Water Company. The various former Consumers Water
9 Company state operations comprise 85% of what has now become Northern
10 Operations for Aqua America.

11 **Q. Mr. Liptak, what is your primary area of responsibility?**

12 A. As Regional President for Northern Operations at Aqua America, I am
13 responsible for the overall water and wastewater operations in five states (Illinois,
14 Indiana, Ohio, Missouri and Maine) and western Pennsylvania (Shenango Valley
15 Division of Aqua Pennsylvania).

16 **Q. As part of your responsibilities, then, do you manage the operations of Aqua**
17 **Ohio?**

18 A. Yes. I am presently acting President of Aqua Ohio (since October of 2008) in
19 addition to my duties as Regional President.

20 **Q. What is the purpose of your testimony in this proceeding?**

21 A. The purpose of my testimony is to provide a description of Masury's operations
22 and explain the reasons why Masury is seeking rate relief.

23 **Q. Please describe Masury's operations.**

1 **A.** Masury purchases treated water from the Shenango Valley Division of Aqua
2 Pennsylvania, Inc. ("Shenango") for resale to approximately 1,500 residential,
3 commercial and industrial customers located in Brookfield Township, Trumbull
4 County. Masury's utility plant in service consists of the distribution lines, storage
5 facilities, booster stations, valves, service lines and meters necessary to provide
6 service to these customers. The rate Masury is charged by Shenango for treated
7 water is subject to the jurisdiction of the Pennsylvania Public Utility Commission.
8 Masury has no employees. All work is performed by employees of Shenango or
9 outside contractors who charge their time to Masury when working within this
10 water system.

11 **Q.** **Why is Masury seeking a rate increase at this time?**

12 **A.** Masury's current rates, which became effective March 23, 2001, were based on
13 revenue and expense levels determined with reference to an August 1, 1999 to
14 July 31, 2000 test year. Since that time Masury's rate base has increased
15 significantly (61%) from \$1,358,455 to \$2,190,335. Since the Company's last
16 rate request, \$1.2 million of capital has been invested primarily for infrastructure
17 improvements including: \$700,000 to replace 1.5 miles of water main (5.2% of
18 the system) and \$200,000 for fire protection improvements in the West Hill area
19 upgrading the Lincoln Street booster station and installing new hydrants.

20 At the time of the last rate filing in 2000, Trumbull County was by far
21 Masury's largest customer with \$1.11 million in bulk water sales out of \$1.684
22 million total revenues. In March of 2007 the County stopped taking water from
23 Masury and began receiving their supply from the Mahoning Valley Sanitary

1 District (MVSD) through the City of Niles, OH. This ended a long-term bulk
2 water supply agreement and relationship which began in 1955. The operating
3 expense for purchased water has always been Masury's most significant cost of
4 doing business. In the last case purchased water accounted for 88% of the total
5 operating expenses. Today, with Trumbull County no longer buying water, the
6 purchased water cost is 46% of total operating expenses.

7 **Q. What has been the increase in operating expenses other than purchased**
8 **water?**

9 A. Although wages, benefits and insurance costs are up significantly, operating
10 expenses, net of purchased water, have only increased 5.4 % in total from the last
11 rate filing nine years ago (\$166.5K to \$175.5K).

12 **Q. Does this conclude your direct testimony?**

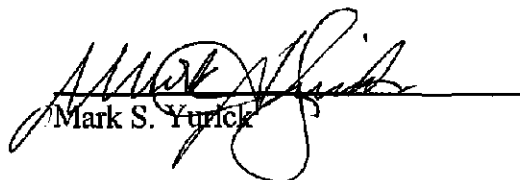
13 A. Yes it does.

14
15 ND: 4847-4917-6836, v. 1

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true copy of the foregoing pleading was served by regular U.S. mail, postage prepaid, this 20th day of August, 2009 on the parties listed below.

Michael E. Idzkowski
Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215


Mark S. Yurick