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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. 09-1044-WW-AIR
in Its Lake Erie Division	:	

TESTIMONY OF

ROBERT A. KOPAS

ON BEHALF OF
AQUA OHIO, INC.
LAKE ERIE 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., Lake
13 Erie Division, the applicant in this case. As Vice President of Finance for the

1 company I have overall responsibility for the accounting records of the company
2 and have 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 six 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 ,
19 Case No. 00-713-WW-AIR, and Case No.09-0560-WW-AIR), and have filed
20 testimony in each of those proceedings. I have also participated in a number of
21 proceedings before the Pennsylvania Public Utility Commission in connection
22 with rate filings by Consumers Pennsylvania-Shenango, Roaring Creek, and

1 Susquehanna Water Companies and have testified before the Indiana Utility
2 Regulatory Commission 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 also responsible for Section D, please explain
19 what is 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 weighed 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 48.57% long term debt and 51.43%
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 June 30,
5 2009 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 6.27%.

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 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 have similar or corresponding risks and should be
4 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.

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

15 A. Yes, it does.

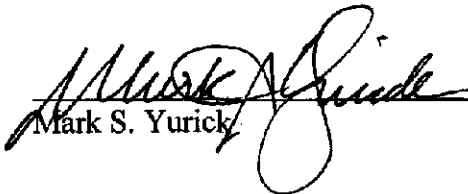
CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Direct Testimony of Robert A. Kopas* was served upon the following parties of record or as a courtesy, via U.S. Mail postage prepaid, express mail, hand delivery, or electronic transmission, on December 21st, 2009.

Michael E. Idzkowski
Gregory J. Poulos
Ohio Consumer Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215
poulos@occ.state.oh.us
idzkowski@occ.state.oh.us

L. Douglas Jennings
James Lynn
Attorney Examiners
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Sarah Parrot
Assistant Attorney General
Public Utilities Division
The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215


Mark S. Yurick