

**FILE**

17

- ☐ Management Policies,  
Practices and Organization
- ☒ Operating Income
- ☐ Rate Base
- ☐ Allocations
- ☒ Rate of Return
- ☒ Rates and Tariffs
- ☒ Other

**AQUA OHIO, INC.**  
**LAKE ERIE DIVISION**  
**CASE NO. 09-1044-WW-AIR**  
**DIRECT TESTIMONY OF**  
**RICHARD A. HIDEG**

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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 :

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TESTIMONY OF

**RICHARD A. HIDEG**

ON BEHALF OF  
AQUA OHIO, INC.  
LAKE ERIE 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 well as  
12 various administrative duties. Because of my responsibilities with respect to the financial  
13 aspects of the Company, I am also involved in the preparation of rate increase  
14 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 to July  
4    1998 I was employed by Consumers Ohio Water where I held various accounting  
5    positions from property accountant to Assistant Treasurer. I was also employed by  
6    Youngstown State University as Associate Director of Accounting from July 1998 till  
7    June 2005. I was hired by Aqua Ohio, Inc. in July of 2005 as Assistant Controller.

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

9    A.     Yes. In addition to my work in connection with this filing, I have been involved in  
10   the preparation of the prior Consumers Ohio Water Company – Lake Erie East Division  
11   filing Case No. 95-1076-WW-AIR, Lake Erie Division filing Case No. 07-0564-WW-  
12   AIR, Masury Case No. 09-0560-WW-AIR and filed testimony in those cases.

13   **Q.     Are you familiar with the application filed by Aqua Ohio, Inc., in Public**  
14   **Utilities Commission Case No. 09-1044-WW-AIR?**

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

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

19   A.     This schedule contains the Lake Erie Division’s proforma income statement for  
20   the twelve months ended December 31, 2009, the test year in this proceeding, and reflects  
21   six months of actual data and six months of projected data, as adjusted for ratemaking  
22   purposes. As shown on the schedule, Lake Erie Division would, on an adjusted test year  
23   basis, experience operating income of \$1,830,725 under its current rates, which produces

1 a rate of return of 4.44%. The proposed rates would, on a proforma basis, produce net  
2 operating income of \$3,561,575 which represents a rate of return on the company's rate  
3 base of 8.63%.

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

6 A. These amounts are adjustments to reflect conditions existing at the time of the  
7 filing of the Application or events that are anticipated during the test year, which did not  
8 prevail during the entire test year. When applying the adjustments to the amounts in  
9 Column (B), the operating income is increased to \$1,830,725 as shown on Schedule C-2,  
10 Column (D).

11 **Q. Could you describe your adjustment totaling (\$1,039) to Operating Revenues**  
12 **on Schedule C-2, Column (C), Line 7?**

13 A. The revenue in Column B of Schedule C-2 reflects the actual revenue for six  
14 months ending June 30, 2009 and the budgeted revenue for the six months ending  
15 December 31, 2009 at current rates. The consumption and revenue as stated on E-4  
16 represent the actual consumption for the 12 months ending March 31, 2009. The  
17 revenues shown on C-2, Column B, Line 3 of \$13,789,586 is subtracted from the  
18 annualized total revenue of \$13,655,923 on Schedule E-4, Column I, Line 10 to compute  
19 the net adjustment as shown on C-3.1 of \$(133,663).

20 The adjustment to private fire protection (Unmetered Sales Revenue) is the  
21 difference between the amount shown on Schedule C-2 that represents six months actual  
22 and six months budget, and Schedule E-4 that represents the annualized revenue for  
23 service at March 31, 2009. This adjustment is (\$273) and is shown on Schedule C-3.2.

1           The adjustment to other operating revenue is the difference between the amount  
2 shown on Schedule C-2 that represents six months actual and six months budget, and  
3 Schedule E-4 that represents the other operating revenue for the 12 months ending March  
4 31, 2009. This adjustment is \$132,897 and is shown on Schedule C-3.3.

5   **Q.     Would you please describe the adjustments under the heading “Operating**  
6           **Expenses” of Schedule C-2, Column C, Line 14?**

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

8   1.     Salaries and wages for management are as of April 1, 2009. The wages for the  
9 bargaining unit are adjusted to the rates effective April 1, 2009 per the union contract.  
10 Also, the number of employees and hours charged to Lake Erie Division have been  
11 adjusted to reflect the current conditions. The calculation and the adjustment of \$50,506  
12 is shown on Schedule C-3.4.

13 2.     The uncollectible accounts expense must be adjusted to reflect the adjusted  
14 revenues on Schedule E-4. Schedule C-3.5, Line 6, shows an uncollectible expense  
15 percentage of .5510% and results in a test-year uncollectible expense of \$81,332, which,  
16 if subtracted from the amount in the test year of \$72,090 requires an adjustment of  
17 \$9,242.

18 3.     The rate case expense for this case is estimated to be \$172,000 on Schedule C-8,  
19 Column B, Line 9. A two and half year amortization period would result in increasing  
20 test year expenses by \$27,007 as shown on Schedule C-3.6.

21 4.     The estimated annual amortization of tank painting cost for the thirteen water  
22 tanks in the system is \$297,560, which compares to the test-year amortization of tank

1 painting of \$255,692. This results in a test-year adjustment of \$41,868 as shown on C-  
2 3.7.

3 5. The test year hospitalization expense was recalculated using the current  
4 employees, percent charged to Lake Erie Division and rates effective January 1, 2010.  
5 The revised hospitalization expense of \$397,086 is compared to the test year expense of  
6 \$354,466, resulting in an adjustment of \$42,620 as shown on Schedule C-3.8.

7 6. The postretirement benefit costs of \$28,573 are based on the actuarial report  
8 issued January 2009. The revised costs are compared to the expense of \$30,156 included  
9 in the test year expense on C-2, resulting in an adjustment of (\$1,583) reflected on  
10 Schedule C-3.9.

11 7. The pension costs of \$591,022 is based on the actuarial report issued October  
12 2008 and allocated to Aqua Ohio, Inc., Lake Erie Division based on covered payroll. The  
13 revised costs are compared to the expense of \$484,357 included in the test year expense  
14 on C-2, resulting in an adjustment of \$106,665 reflected on Schedule C-3.10.

15 8. The billing expense was increased by \$47,797 to accommodate the move from  
16 post card billing to envelope billing. The adjustment of \$47,797 is shown on C-3.11.

17 9. Transportation expense was adjusted \$(10,208) and workers compensation  
18 expense was adjusted for \$(5,051) for a total of \$(15,259) to allow for the operating  
19 contracts. The adjustment of \$(15,259) is reflected on Schedule C-3.12.

20 10. Purchased water expense was adjusted (\$13,618) to reflect a rate increase granted  
21 Ohio American. The adjustment of (\$13,618) is reflected on Schedule C-3.13.

1 11. The sludge expense of \$117,000 in test year expenses was adjusted to reflect  
2 current contract rates for the hauling and disposal of the sludge. The sludge adjustment of  
3 (\$72,000) is reflected on C-3.14.

4 The sum of the above paragraphs one through twelve totals \$223,245 the  
5 adjustment in Column C line 12 of Schedule C-2.

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

8 A. The depreciation expense in Column B of Schedule C-2 includes depreciation on  
9 assets placed in service as of March 31, 2009.

10 It has been the Commission's procedure to calculate the annual depreciation  
11 expense on the property in service at date certain; therefore, this calculation has been  
12 made on Schedule B-3.2, Page 11 of 11, Column F, as \$1,737,497, resulting in reduced  
13 depreciation expense of (\$259,861) as shown on Schedule C-3.15.

14 **Q. Would you explain your computations to arrive at the adjustment of \$7,791**  
15 **increasing Taxes Other Than Income on Schedule C-2, Column C, Line 18?**

16 A. The "Taxes Other Than Income" adjustment is made up of property taxes, excise  
17 tax and payroll taxes as follows:

18 1. The test year property taxes before adjustment of \$2,891,081 on Schedule C-2.1,  
19 Page 7 of 8, Column E, Line 14, were computed before the actual rates and valuation  
20 were known for the year 2008, and estimates were used for the year 2009. At the time  
21 the application was prepared additional information was known and a computation to  
22 recalculate the property taxes was made which resulted in an adjustment to decrease  
23 property taxes by (\$3,457) as shown on C-3.16. The assessed valuation at date certain is

1 based on the plant in service less OWDA property plus inventory times the assessed  
2 valuation percentage from December 31, 2007. The assessed valuation times the average  
3 property tax rate of \$97.61 per \$1,000 equals \$2,887,624.

4 2. The excise tax before the adjustment to operating revenues is \$693,130 on  
5 Schedule C-2.1, Page 7 of 8, Column E, and Line 15. After the annualization of  
6 operating revenues, the excise tax (4.75%) is \$697,278, requiring an adjustment to  
7 increase excise tax expense by \$4,148 which is shown on Schedule C-3.17.

8 3. The adjustment to payroll taxes is \$7,100 which is shown on Schedule C-3.18.  
9 The payroll tax adjustments are shown on WPC 3-18 (FICA) Tax, WPC 3-18a Federal  
10 Unemployment Tax, and WPC 3-18b State Unemployment Tax.

11 The three adjustments above total \$7,791.

12 **Q. Would you explain your computation of the adjustment to Federal income**  
13 **tax on Schedule C-2, Column C, Line 19?**

14 A. Federal income tax adjustment is shown on Schedule C-3.19, which computes the  
15 Federal income tax expense beginning with the pretax operating income of the unadjusted  
16 amounts on Schedule C-2 of \$1,830,725. The Federal income tax is added back to arrive  
17 at pre-tax operating income. The adjustments from Schedule C-3 are applied, as well as  
18 the jurisdictional book-to-tax adjustments from Schedule C-4, which results in an  
19 adjusted taxable income of \$(464,961). Applying a tax rate of 35% to that amount results  
20 in a current tax payable of \$(162,736). In addition, the investment tax credit of \$(20,378)  
21 and the deferred taxes of \$492,323 results in a Federal Income Tax expense of \$309,211.

22 Comparing this amount to the amount shown on Schedule C-2 of \$303,508 results  
23 in an adjustment to expense on Schedule C-3.19 of \$5,703.



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

3 A. Schedule C-3 shows the adjustments by income statement grouping. The net of  
4 the Total Revenue Adjustments and Total Expense Adjustments is \$22,083 and can be  
5 found on Schedule C-2, Column C, Line 23. Applying the adjustments to the unadjusted  
6 column results in Column D, "Adjusted Revenue and Expenses". The adjusted test year  
7 operating income is \$1,830,725 and the amounts in Column D are carried forward to  
8 Schedule C-1, Column B

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

10 A. Yes. I am responsible for section E.

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

13 A. Schedule E-1, Pages 1 to 4 are copies of the proposed tariff sheets as filed with  
14 the "Notice of Intent to File" and if applied to the current consumption will generate the  
15 revenue requested on Schedule C-1. Mr. Monies' Cost of Service testimony calculates  
16 the proposed rates according to the P.U.C.O. methodology.

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

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

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

21 A. Schedule E-4 summarizes the proposed and current revenue annualized. The  
22 Metered Sales (Residential, Commercial, Industrial, and Other Utilities) represents the  
23 actual consumption for the 12 months ending June 30, 2008. A fire rate analysis was

1 prepared as of March 31, 2009 recapping the Private Fire Protection billings. The  
2 increase in Forfeited Discounts is based on the increase in Metered Revenue. An  
3 increase was anticipated in Miscellaneous Revenue.

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

5 A. Schedule E-5 pages 1 thru 3 compares the current Lake Erie Division bill to the  
6 proposed Lake Erie Division bill at various levels of consumption and by customer class.  
7 It also shows what the increase and percent of increase for each level of consumption  
8 shown.

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

10 A. Yes, it does.

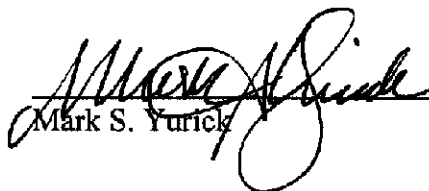
## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Prepared Direct Testimony of Richard A. Hideg* 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 ~~18<sup>th</sup>~~ 2009.

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