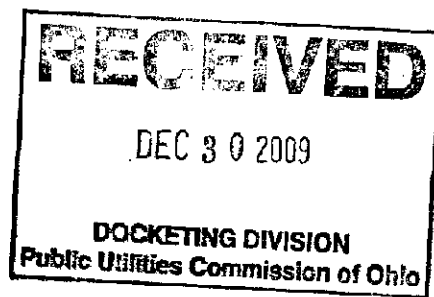


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**A report by the Staff of the
Public Utilities Commission of Ohio**

**Christi Water Systems, Inc.
Case Number 09-569-WS-AIR**

**Ohio | Public Utilities
Commission**

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**STAFF'S REPORT
OF
INVESTIGATION**

In the Matter of the Application of Christi)
Water System, Inc. for an Increase in)
Rates and Charges.)

Case No. 09-569-WW-AIR

**Submitted
to
The Public Utilities Commission of Ohio**

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Christi)
Water System, Inc. for an Increase in) Case No. 09-569-WW-AIR
Rates and Charges.)

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

To The Honorable Commission:

In accordance with the provisions of R.C. Section 4909.19, the Commission's Staff has conducted its investigation in the above matter and hereby submits its findings in the within Staff Report.

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

In accordance with R.C. Section 4909.19, copies of the Staff Report have been filed with the Docketing Division of the Commission and served by certified mail upon the mayors of all affected municipalities and other public officials deemed representative of the service area affected by the application. A copy of said report has also been served upon the utility or its authorized representative. Interested parties are advised that written objections to any portion of the Staff Report must be filed within thirty (30) days of the date of the filing of said report after which time the Commission will promptly set this matter for public hearing. Written notice of the time, place, and date of such hearing will be served upon all parties to the proceeding.

The Staff Report is 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 Report, however, is legally cognizable evidence upon which the Commission may rely in reaching its decision in this matter. (See *Lindsey v. Pub. Util. Comm.*, 111 Ohio St. 6 (1924)).

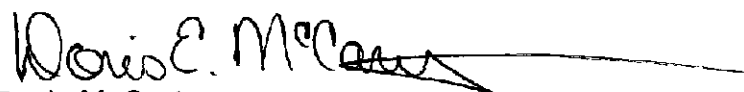
Respectfully submitted,

Utilities Department

A handwritten signature in cursive script that reads "Jodi Bair".

Jodi Bair
Director

Service Monitoring and Enforcement Department

A handwritten signature in cursive script that reads "Doris E. McCarter", followed by a long horizontal line.

Doris McCarter
Director

STAFF ACKNOWLEDGEMENTS

The Staff Report components reflect the results of investigations conducted by the Staff of the Applicant's rate application. The Staff person responsible for each component is shown below:

Utilities Department

Operating Income and Rate Base	Syeda Choudhury
Rate of Return	Steve Chaney
Rates and Tariffs	Sue Daly

Service Monitoring and Enforcement Department

Reliability and Service Analysis Division	Peter Baker
Investigations and Audits Division	Mary Vance
Facilities and Operations Division	Cliff Evans

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BACKGROUND

The Applicant, Christi Water System, Inc. is an Ohio corporation and a public utility engaged in the business of providing water service to approximately 192 residents of Christi Meadows Subdivision in Defiance. Christi Water Systems has a purchased water agreement with the City of Defiance, Ohio.

The Applicant's current base rates and charges were established by Order of the Commission on May 8, 1986, in Case No. 85-859-WW-AIR.

On July 7, 2009, the Applicant filed an abbreviated application for an increase in rates for water service within its service area. By entry dated July 29, 2009, the Commission ordered the application be accepted for filing as of July 7, 2009, and that the test period shall begin January 1, 2008 and end December 31, 2008, with a date certain of December 31, 2008.

The Applicant's rates requested in this proceeding, when applied to total jurisdictional test year sales would generate additional operating revenues of approximately \$47,893 which represents an increase of 58.36% over current base rate operating revenues.

OPERATING INCOME AND RATE BASE

SCOPE OF INVESTIGATION

The scope of investigation for an application filed pursuant to Standard Filing Requirements, Chapter V, Abbreviated Filing, was designed to determine the reliability and reasonableness of the Applicant's test year information concerning operating income, rate base and other data.

The Staff's investigation included a general review of the Applicant's operation and organization through analyses of PUCO annual reports, other compiled data and numerous conversations with the operators of the utility. Actual revenues and expenses recorded on the Applicant's records were analyzed for reasonableness and acceptability for ratemaking purposes. The valuation study included a review of the utility plant records of the Applicant. The Staff performed other analyses as considered necessary under the circumstances.

The investigation developed certain facts explained in the following sections of this report, which the Staff believes are relevant to the determination of test year operating income and rate base. The purpose of this investigation was to develop financial data for ratemaking purposes; it was not intended to provide a basis for expressing an opinion on the financial statements of the Applicant as a whole.

REVENUE REQUIREMENTS

As shown on Schedule A-1, the Staff recommends a revenue increase range of \$44,193 to \$44,541. This represents an increase of 51.52% to 51.93% over test year operating revenue. This determination is based on the Staff's examination of the accounts and records of the Applicant for the twelve months ending December 31, 2008, as summarized in this report, and schedules which incorporate the Staff's recommended rate of return, rate base, and operating income.

RATE BASE

The rate base represents the net value of the Applicant's property and other assets as of the date certain, December 31, 2008, that were used and useful in providing water service to its customers. The Staff's analysis of rate base is divided into Plant In Service, Depreciation, Construction Work In Progress, Working Capital and Other Rate Base Items.

The Staff's recommended rate base is shown on Schedule B-1. Schedules B-2 through B-6 provides additional support for the Staff's figures.

Plant In Service

The Applicant's plant in service represents the surviving original cost of the plant that is used and useful in supplying water service to the Applicant's customers. The Staff reviewed pertinent data including annual reports to the Commission and Applicant's prior rate case documents to verify plant balances. The Staff finds that the Applicant's records are a reliable source for determining original cost. Plant in Service is summarized on Schedule B-2.

Depreciation

Depreciation accounting is the process that distributes the original cost of depreciable assets, adjusted for net salvage, over the normal useful life of the property in a systematic and rational manner. The Staff's investigation of depreciation is segregated into two areas: Depreciation Reserve, and Depreciation Accrual Rates and the corresponding Depreciation Expense. Each of these areas is discussed in detail in the following sections.

Depreciation Reserve

The Applicant keeps its book depreciation reserve based on tax depreciation. However, the Applicant did include a depreciation reserve shown by plant account in the Applicant's annual report to the Commission for the year ended December 31, 2008. The Staff, as part of its investigation, tested the Applicant's depreciation reserve as reflected in the Applicant's annual report against a calculated theoretical reserve based on the current accrual rates and December 31, 2008 plant balances as a guide to whether the reserve was appropriate. The Staff determined that the level of the overall depreciation reserve is reasonable in comparison with the theoretical reserve calculation. Therefore, the Staff recommends that the Applicant's depreciation reserve, as adjusted on Schedule B-3, be used for purposes of this proceeding.

Depreciation Accrual Rates and Expense

The current accrual rates for the Applicant's plant were prescribed by the Commission in Case No. 85-859-WW-AIR. The Staff reviewed these accrual rates by comparing them to accrual rates approved by this Commission for other similar utility companies. The Staff is of the opinion that the Applicant's current accrual rates are still proper and adequate.

The Staff's calculation of depreciation expense based on the jurisdictional plant in service balances at date certain and the accrual rates discussed above, is shown on Schedule B-3.2.

Construction Work In Progress (CWIP)

The Applicant did not request an allowance for CWIP in this case and, as indicated on Schedule B-4, the Staff recommends none.

Working Capital

The Staff calculated the allowance for working capital based on the formula approach, which has been approved by the Commission in previous cases. Under this method, the expense lag dollars component of working capital represents one-twelfth of the adjusted operation and maintenance expense due to the Applicant billing monthly. One-fourth of the adjusted taxes other than income taxes (excluding Deferred Taxes) and current federal income taxes are used to partially offset working capital. The calculation of the recommended allowance for working capital is provided on Schedule B-5.

Other Rate Base Items

As shown on Schedule B-6, the Staff reduced rate base by the date certain amount of the deferred taxes resulting from tax-accelerated depreciation.

ALLOCATIONS

Since this case involves the Applicant's entire service area, no jurisdictional allocations are necessary.

OPERATING INCOME

The Applicant's test year operating income consists of twelve months of actual data covering the period from January 1, 2008 to December 31, 2008. The Staff adjusted the Applicant's test year operating income as required to render it appropriate as a basis for setting rates.

The Staff's proforma operating income is the Staff's adjusted test year operating income modified to reflect the proposed increase in revenue, uncollectible expenses, Ohio gross receipts tax, and federal income taxes.

Schedules C-1 and C-2 present the Staff's determination of operating income. The calculations, methodologies and rationale used to develop the Staff's adjusted and proforma operating income are detailed on Schedules A-1.1, C-1.1, C-3.1 through C-3.7, and C-4.

Proforma Adjustments

Schedule C-1.1 presents an increase in operating revenues based on Applicant's proposed rates, usage and the number of customers shown on Schedule C-1.1a. Schedule C-1.1 also shows the associated increases in uncollectible expenses, Ohio gross receipts tax and federal income tax.

Current Adjustments

The Staff's recommended adjustments to operating income are as follows.

Base Revenues

The Applicant's test year revenue is based on actual test year receipts. The Staff's revenue calculation used the actual number of customers and usage during the test year to determine operating revenues at current and proposed rates as shown on Schedule C-1.1a. Schedule C-3.1 shows the Staff's revenue adjustment at current rates.

Late Payment Revenue

The Staff adjusted test year late payment revenue to reflect the Staff's adjustment to base revenue. The Staff used a late fee ratio based on unadjusted test year late

revenue to unadjusted test year sales revenue. The Staff's calculation of this adjustment is shown on Schedule C-3.2.

Rate Case Expense

The Staff's adjustment amortizes an estimated level of rate case expense over three years. The Staff estimates the current rate case expense to be \$7,500 and is of the opinion that this estimate is reasonable for this proceeding. The Staff's adjustment is presented on Schedule C-3.3.

Uncollectible Expense

The Staff adjusted test year uncollectible accounts expense to reflect the Staff's adjustments to revenue utilizing a three year average ratio of the uncollectable accounts to base revenue. The Staff's adjustment is shown on Schedule C-3.4.

Depreciation Expense

Depreciation expense was adjusted to reflect the Staff's recommended plant in service as of the date certain and the Staff's recommended accrual rates. This adjustment is provided on Schedule C-3.5 with supporting calculations shown on Schedule B-3.2.

Taxes Other Than Income Taxes

Taxes other than income taxes were adjusted to reflect the proper base and the latest known tax rates. Schedule C-3.6 provides a summary of the calculated taxes and the resultant tax adjustment.

Federal Income Tax Expense

The Staff computed test year federal income taxes to reflect the recommended adjustments to operating revenues and expenses. This computation also reflects the normalization of tax accelerated depreciation.

Schedule C-3.7 provides the Staff's federal income tax adjustment and Schedule C-4 provides the detailed calculation of the federal income taxes as well as the computation of tax deferrals.

RATE OF RETURN

In determining a fair rate of return, three economic criteria were established in the landmark Bluefield and Hope cases. These cases establish that the rate of return should be sufficient to enable the regulated utility to: (1) maintain its credit standing and financial integrity; (2) attract new capital at reasonable costs; and (3) earn returns commensurate with those being earned on investments attended by corresponding risk. However, they also indicate that a utility is not entitled to speculative return. These criteria serve as a basis for appropriate rate of return determination. A regulated company must be able to generate sufficient revenues from the rates set by the regulatory agency to cover all costs, both operating expenses and capital costs, incurred under prudent, honest, and efficient management. The regulatory commission must, therefore, give the investor the opportunity to receive fair compensation.

The Staff has reviewed the financial condition of the Applicant and believes that under prevailing interest rates and general economic conditions, a rate of return in the range of 9.5% to 10.5% is fair and reasonable.

RATES AND TARIFFS

INTRODUCTION

In this proceeding, Christi Water System Inc. (Applicant or Company) requests authority to increase its base rates and charges for general water service. Applicant is a small water company providing utility service to approximately 192 residential customers. The Company purchases all of its water from the City of Defiance, Ohio. Applicant's current water service rates are unbundled into base rates and purchased water rates. The base rates were established by Commission Entry in Case No. 85-859-WWW-AIR, and became effective May 6, 1986. The Company avails itself of the purchased water adjustment proceedings established in Section 4909.171, Revised Code. The current purchased water rates were approved in Case No. 09-237-WWW-PWA and became effective on May 18, 2009. The purchased water rates are not a part of this proceeding. Applicant in the current proceeding is requesting an increase in base rates and charges that will generate additional water sales revenue of \$47,893, representing approximately a 58.36% increase.

Rates & Tariff Staff has investigated the rate and tariff matters proposed by the Applicant. The results of Staff's investigation are reported herein. It is the Staff's intent to provide analysis with respect to the acceptability and reasonableness of the revenue recovery mechanisms contained in Applicant's proposed tariffs. The specific rates and charges referenced as Staff proposals in this section were developed to generate Applicant's proposed revenue requirement. Such rates and charges may require adjustment to generate the revenue requirement authorized by the Commission. Typical customer bills under Applicant proposed and Staff proposed rates are presented at the end of this report.

TARIFF ANALYSIS

General

There are a few typographical errors in the proposed tariff that will need correction before a final tariff is filed. Staff will discuss these minor errors with the Applicant.

Extensive Changes

Due to the extensive number of changes to Applicant's tariff, Staff recommends that the current tariff be cancelled in its entirety and a new, PUCO No. 3, tariff be issued. This would make all pages of the new tariff original pages.

Definitions

Applicant has expanded the definitions section of its tariff. Most of the definitions conform to Chapter 4901:1-15-01 of the Ohio Administrative Code (O.A.C.). Staff finds that the Applicant's definitions "Service Branches" and "Services" should be replaced with the definitions "Company service line", "Customer service line", or "Service Connection" where applicable. Also, while "tap-in" is defined in Applicant's tariff, Applicant makes use of the term "installation". Staff recommends that "installation" be replaced by the term "tap-in".

While the terms "consumer" and "customer" are each distinctly defined in Applicant's tariff, Applicant uses the terms interchangeably. Staff recommends that references to "consumer" be deleted from Applicant's proposed tariff and be replaced with "customer".

Application for Service

Applicant's tariff contains language that states that the Company will provide water service application forms to persons applying for water service. A copy of such form is found in the tariff. Staff finds the form to be reasonable and recommends approval.

Applicant has language in the tariff that reads; "Water service to all rental properties shall be the final responsibility of the owner if not paid by the tenant before service is restored to the property for a new tenant." Staff finds that this policy is not reasonable and should be deleted from the tariff. The Applicant may request the owner to put all service of the rental property in the name of the owner, but it may not require the owner to pay a tenant's bill.

Deposits

On Sheet No. 3, the Deposits paragraph appears to require all customers to pay a deposit. Such a requirement would be inconsistent with Chapter 4901:1-17-03(A), O.A.C., which requires utilities to use one of five criteria for establishing a customer's creditworthiness. Staff recommends that the Applicant replace the contents of this paragraph with a statement that the Company shall comply with

the requirements of Chapter 4901:1-17, O.A.C. concerning the establishment of credit for residential customers.

Testing of Meters

On Sheet No. 4, the section on meter testing requires customers who request a meter test to pay a deposit. This requirement is inconsistent with Chapter 4901:1-15-19(B), O.A.C., which allows the customer to request one meter test without charge during a three-year period. Staff recommends that the Applicant delete this section and in its place, rely on section titled "Inspection and Testing" which appears on Sheet No. 5.

Bills and Payments for Service

Applicant currently bills customers monthly in arrears. The due date is currently no less than 21 days from the mailing date of the bill. Applicant is requesting to change this to 14 days, as permitted in Chapter 4901:1-15-26, O.A.C.

The rationale offered in response to Data Request No. 5 is that 14% of the customers pay late each month. In most of these instances the customer has misplaced their bill and doesn't know the amount due. The Applicant believes that by encouraging the customer to pay the bill within 14 days keeps it more current and a priority in the customer's mind. Having 21 days until due date allows them to set the bill aside and think they can take care of the bill later, which creates the high rate of about 14% of the Company's payments coming in late with a late fee. The Company prefers to encourage prompt payments without added fees needed.

Staff notes that Chapter 4901:1-15-26, O.A.C. does permit the company to reduce the number of days before a bill is due to 14 days, therefore, does not object to this change.

Fire Hydrants and Pool and Tanks

Applicant's tariff contains terms concerning fire hydrants (Sheet 9, #11) and pools and tanks (Sheet 9, #12). In Data Request No. 8 Staff queried the validity of these two sections. Applicant's reply was that they did not anticipate any issue with customers, have never had a problem with this issue, and saw no reason to retain the policies in the tariff. The reply to the data request did not answer Staff's question of whether or not the Company applied the policies. If the policies are not needed or used, than Staff recommends they be deleted.

Discontinuance of Water Service

Sheet Numbers 9 and 10 contain the Applicant's terms for disconnecting service, but these sheets omit those situations in which disconnection (for non-payment) is prohibited. Staff recommends the Applicant include a listing of these situations as stated in Chapter 4901:1-15-27(C)(1)-(4), O.A.C.

Sheet No. 10 also describes the customer's ability to use a medical certificate to postpone service disconnection for non-payment if loss of water service would be especially dangerous to one's health. This description also states that a customer may use a medical certificate to have service reconnected if the customer's service had been disconnected within the previous 14 days. Staff recommends the Applicant extend this 14-day period to 21 days to comply with the current requirements of Chapter 4901:1-15-27(I)(2), O.A.C.

Finally, Sheet No. 10 does not provide a complete list of medical professionals who may sign the medical certification, either to prevent non-payment disconnection or to reconnect service after it has been disconnected for non-payment. Staff recommends the Applicant include in its terms for each of these situations a complete listing of such medical professionals as listed in the current version of Chapter 4901:1-15-27(I)(1) and (3), O.A.C.

Access to Premises

Chapter 4901:1-15-11(C), OAC, requires employees of a company to provide proper company photo identification when seeking access to a customer's premises. The Company responded in Data Request No. 9 that the employee uses their driver's license as identification. In the past the Commission has found this to be reasonable for a small company so as to avoid the cost of obtaining company photo ids. Staff finds this to still be a valid policy and recommends approval.

Customer Bill Form

Chapter 4901:1-15-15(D), O.A.C. requires each waterworks company to file a copy of its customer bill form as an attachment to its tariff. The Applicant attached to its proposed tariffs a billing statement labeled as a "Billing Sample" attachment.

Staff believes this document is more akin to an account statement and is inconsistent with the requirements of Chapter 4901:1-15-23(A) as listed below in the following table.

Chapter	Required Information Missing from Billing Statement
4901:1-15-23(A)(9), O.A.C.	Previous and current meter reading and billed volume
4901:1-15-23(A)(10), O.A.C.	Dates of service covered by the bill
4901:1-15-23(A)(11), O.A.C.	Statement that a rate schedule is available upon request
4901:1-15-23(A)(13), O.A.C.	PUCO TTY number and correct Call Center operating hours

Staff recommends the Applicant revise its billing statement to clearly indicate the required information listed above.

Notification of Customer Rights

Chapter 4901:1-15-15(D) O.A.C. also requires each waterworks company to file a copy of its Notification of Customer Rights as an attachment to its tariff. The Applicant filed in this case an amended Notification of Customer Rights (Notice) on September 3, 2009. Staff has reviewed the Applicant's proposed Notice for compliance with Chapter 4901:1-15-16 and has identified the issues discussed in the paragraphs below.

Disconnection of Service – Section D of the Notice describes the customer's rights pertaining to service disconnection. One of these rights is the customer's ability to obtain a medical certificate to postpone disconnection or to have service reconnected if loss of water service would be especially dangerous to one's health. Accordingly, Section D states that a customer may use a medical certificate to have service reconnected if the customer's service had been disconnected within the previous 14 days. Staff does not object to this change as it is consistent with Chapter 4901:1-15-27(l)(2), O.A.C.

In addition, Section D does not provide a complete list of medical professionals who may sign the medical certification, either to prevent non-payment disconnection or to reconnect service after it has been disconnected for non-payment. Staff recommends the Applicant include for each of these situations a complete listing of such medical professionals as listed in the current version of Chapter 4901:1-15-27(l)(1) and (3), O.A.C.

Meter Testing – Section F describes the customer's right to request a meter test without charge once every three years. The first two sentences of the second paragraph in Section F are redundant, however, to statements in the first paragraph, and the third sentence is inconsistent with the first paragraph. To resolve these issues, Staff recommends the Applicant eliminate the first two sentences in the second paragraph and revise the third sentence to read: "If the meter meets accuracy standards on an additional customer-requested meter test within a three-year period, the Company may require the customer to pay . . ."

In addition, the third paragraph of Section F omits the customer's rights to be notified of the scheduled meter test date and to have the customer's representative present when the test is performed. Staff Recommends the Applicant include these rights in the third paragraph of Section F.

Establishing Credit – Section G appears to require all customers to pay a deposit to obtain service. Such a requirement would be inconsistent with Chapter 4901:1-17-03(A), O.A.C., which requires utilities to provide the customer other options (besides a deposit) for establishing creditworthiness. Staff recommends that the Applicant delete the first paragraph of Section G and add to the end of that section the applicable requirements of Subsections (b) through (d)(iv) of the above-cited rule concerning the option to provide a guarantor. Also at the end of Section G, the Applicant should include the applicable requirements of Chapter 4901:1-17-05 concerning the maximum deposit amount and the interest rate on deposits.

MISCELLANEOUS CHARGES

Late Payment Charge

Applicant currently applies a late payment charge of 5%. Applicant is requesting an increase in the charge to 10%. Staff finds that Commission policy and the industry standard is 5% and does not recommend approval of the proposed increase.

The tariff language does not state that the late charge is not compounded. The tariff language should be changed to language as follows: The late payment charge is not compounded on future delinquencies, is based on current charges only and is not imposed during any billing period in which payments made exceed the customer's current charges.

Dishonored Payment Charge

Staff finds a dishonored payment charge is appropriate and should reflect the actual costs incurred by the Company to process such payments. The cost of dishonored payments should not be recovered by customers in general. Such payments decrease the funds available for the utility to meet its obligations with resulting:

- (1) Additions in working capital;
- (2) Interest expense associated with short term borrowing; and
- (3) Labor and non-labor expenses in processing the returned/dishonored payments

Applicant currently has a \$5 dishonored payment charge and is proposing to increase the charge to \$35. The Company experienced 2 dishonored payments during the test period of this case. In response to Data Request No. 6, Applicant stated the cost to process a dishonored payment is \$49. Staff has reviewed the costs and finds that a dishonored payment charge of \$49 to be reasonable and recommends approval.

Disconnection/Reconnection Charge

Applicant is seeking to increase the amount of its reconnection charge to \$45. The Applicant's current tariff contains a reconnection charge of \$15.

In response to Data Request No. 7, Applicant stated that it performed no reconnections during the test year.

Applicant itemized the cost to reconnect a customer in Data Request No. 7 as \$33. Staff has historically recommended a reconnection fee rather than a disconnect fee so as not to discourage customers from calling and disconnecting when leaving the system. Staff has reviewed normal business hours itemized costs, finds them to be reasonable and recommends approval of a \$33 normal business hours reconnection charge.

Applicant did not list the after normal business hours costs of this service. Staff finds that there are few disconnections/reconnections performed and therefore, an after hour's charge of out-of-pocket cost is reasonable and recommends approval.

Service Tap-in (Installation)

Staff has reviewed the Company's service tap-in policy and fees. The Company charges out of pocket cost to the potential customer in installing a new service connection. Staff finds this reasonable and recommends approval.

Meter Testing

This section is to address any meter testing charges and not the actual meter testing policy, which is discussed elsewhere in this section.

Applicant has a \$10 deposit fee to cover the cost to perform a meter test during normal business hours. The Applicant is requesting an increase to an \$85 deposit. Following Chapter 4901:1-15-19, O.A.C., a deposit is not required and Staff recommends the deposit language be deleted.

RATES AND REVENUE ANALYSIS

General guidelines or objectives are followed in Staff's review of rate schedules and designs. The applicable schedules should provide the utility the opportunity to recover the authorized revenue. The various schedules should represent a reasonable distribution of revenue between the various customer groups. The particular schedule should be equitable and reasonable to all customers within a group. The schedules should provide for customer understanding, continuity of rates, and minimal customer impact.

The rate design criteria are to be viewed as a package, in that they are interrelated. Although each item can separately be identified and applied to rate schedule determinations, no single standard is overriding in determining proper rate design. The rate schedules that comprise a particular utility's tariff should provide for the recovery of expenses found proper in the course of a regulatory proceeding. If the rate schedule is designed on the basis of cost causation, it will provide for expense recovery in the long term, given changes in customer usage characteristics. Normally, and to the extent sufficient information is available, cost of service studies and related expense analyses, are necessary to determine the appropriate level of revenue to be generated and appropriate recovery of such revenue.

The rate schedules should be designed to be equitable and reasonable to the customers served pursuant to their applicability. This criterion involves several considerations. The schedules should, to the extent practicable, be predicated upon the costs associated with a particular service rendered. Customers receiving like services should experience the same charges and provisions.

Also, differences in the applicable charges should be representative of differences in costs.

From a practical rate design standpoint, absolute equality between costs and revenue may be difficult to achieve in the short term. While it may be viewed as equitable to set rates at costs, if there is a substantial divergence in the current rates the resulting impact on individual customers may be viewed as unreasonable. While desiring cost supported charges, Staff considers such items as resulting typical customer billings and resulting revenue increases, which would necessarily occur. These tests help provide benchmarks with regard to the reasonableness of charges and rate forms. While it is the Staff's position that rates should reflect costs, it is also important to consider the continuity associated with the current and proposed pricing structures. This may result in movement towards more closely aligning revenues with costs rather than an absolute match at a particular time period.

When employing these standards to develop and design a rate, the results should be understandable to the customers billed under the schedule.

Revenue Analysis

Christi Water System Inc. is a small water company, providing water service to 192 residential customers. Because the Company services one customer class (residential) and has not had changes in customer make-up that would cause a shift in cost causation; Staff finds it unreasonable to request that the Company prepare a cost of service study.

Revenue Distribution

As there is only one class of customer, there is no need for a discussion on revenue distribution.

Please note that Staff is using Applicant's proposed revenue for illustration purposes only and is not making any recommendation in this section as to the amount of the revenue requirement.

The Applicant does have a purchased water rate. The purchased water revenue is not included in this analysis as the surcharge became effective May 18, 2009, which is outside of this test period and only the base rates have been presented for review. Therefore, all recognition of the surcharge is foregone in this report.

Rate Analysis and Rate Design

In Applicant's previous base rate case, Case No. 85-859-WW-AIR, the rate blocks were changed from a minimum charge and four (4) declining blocks to a minimum charge and two (2) declining blocks.

The minimum charge block is established as 0-310 cubic feet (cf) a month for a fixed fee. This is to be charged to customers who have zero up to 310 cf of usage a month. Applicant did not understand that they were to charge customers for zero usage, and therefore have not been billing these customers and under recovering revenue. This was not intentional, but rather a lack of understanding. Staff is showing both current and proposed revenue as though this revenue had been collected, as it is the revenue that should have been collected.

The Applicant is proposing an across the board increase in rates.

There are some customers with substantial usage. The majority of usage by customers falls within the first two blocks. Staff finds that an inclining block rate structure to be appropriate to give the larger user the proper pricing signal.

Minimum Charge

A minimum charge is a fixed charge calculated to recover the cost to serve a customer whether or not they use any water while charging for a minimal amount of water usage. A customer charge contains no water entitlement.

Over the years, Staff has been recommending the deletion of minimum charges and replacing the minimum charge with a customer charge. However, in this case Staff is recommending the retention of the minimum charge. Due to the amount of the proposed rate increase and the fact that customers with zero usage will now be charged, Staff finds the elimination of the minimum charge could cause much customer confusion and rate shock. This could also cause additional costs to the Company in billing program modifications. Staff, therefore, recommends the retention of a minimum charge.

The Applicant is proposing to increase the minimum base rate charge of \$9.54 to \$23.74. This represents an increase of \$14.20 or approximately 149%.

Rate Blocks/Volumetric Rates

As previously discussed, Staff has reviewed Applicant's test year usage data and finds the existing two declining block rate block design to be unreasonable and is recommending an inclining block rate structure. Staff further finds the usage ranges in the blocks to be reasonable.

Applicant's Current and Proposed Monthly Rates

<u>Usage Block</u>	<u>Current Base Rates</u>	<u>Proposed Base Rates</u>	<u>Dollar Increase</u>	<u>Percentage Increase</u>
0 – 310 cf/month	\$ 9.54	\$ 23.74	\$ 14.20	148.8%
311-1,160 cf	.0182	.0452	.0270	148.4
Over 1,160 cf	.0151	.0375	.0224	148.3

Applicant's Current and Staff's Proposed Monthly Base Rates

<u>Usage Block</u>	<u>Current Base Rates</u>	<u>Proposed Base Rates</u>	<u>Dollar Increase</u>	<u>Percentage Increase</u>
0 – 310 cf/month	\$ 9.54	\$ 19.08	\$ 9.54	100.0%
311-1,160 cf	.0182	.0608	.0426	234.1
Over 1,160 cf	.0151	.0691	.0540	357.6

SERVICE MONITORING AND ENFORCEMENT

WATER SERVICE QUALITY

Staff investigated all Christi Water System's physical facilities and operations to assess compliance with 4901:1-15 O.A.C., the Water and Wastewater Service Standards. The investigation also entailed a review of Company records, water quality tests, various inputs provided by customers including the results of a customer survey sent in July 2009, and a review of customer contacts received at the Commission.

PHYSICAL FACILITIES REVIEW

Christi Water purchases all of its water from the City of Defiance and therefore has no source of supply or water treatment facilities. The Company also does not have any elevated storage of its own.

Routine field inspections reflect that the Company is in compliance with Ohio Administrative Rules in the following areas:

1. Annual Main Flushing Program including semi-annual dead-end main flushing as required pursuant to O.A.C. 4901:1-15-10(B)(4).
2. All valves are being operated as required pursuant to O.A.C. 4901:1-15-10(B)(5).
3. Hydrants are being inspected and maintained pursuant to O.A.C. 4901:1-15-10(B)(5).
4. Random water pressure testing shows pressures well in excess of the 35 psi minimum required pursuant to O.A.C. 4901:1-15-20(C)(3).
5. Random chlorine testing shows that adequate chlorine residuals are being maintained pursuant to O.A.C. 4901:1-15-20(C)(1).

Unaccounted for Water

A review of the unaccounted-for-water reported by the Company reflected a rolling 12 month average ratio of 8.6% for the period ending with the third quarter of 2009 which is under 15%, and therefore requires no remedial action under O.A.C. 4901:1-15-20(C)(5).

Facilities Review Recommendation

Staff believes Christi is in compliance with Commission's Water and Wastewater Service Standards. Therefore, Staff has no recommendations at this time.

ADMINISTRATIVE REVIEW

Annual Meter Readings

All inside meters without encoder type meters are being read at least once per year. All meters are being read at least quarterly pursuant to O.A.C. 4901:1-15-19(A).

Customer Service Assessment

Staff reviewed the customer contacts to the PUCO's call center for the period of January 1, 2004 through November 9, 2009. The PUCO received three contacts during this period. Two contacts in 2009 were from customers protesting the Company's rate case application. The only other contact received since January 2004 was a customer seeking account information.

Customer Survey Analysis

A customer survey was issued to 146 of Christi Water customers in July 2009. A total of 41 surveys (28.1%) were returned reflecting that over 80% of the responding customers were generally satisfied with their water quality.

Administrative Review Recommendation

Upon review of the PUCO received complaints and the results of the direct survey of Christi's customers, Staff has no recommendations in this area.

SCHEDULE A-1

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Revenue Requirements

	<u>Lower Bound</u>	<u>Upper Bound</u>
(1) Rate Base (a)	\$ 27,920	\$ 27,920
(2) Adjusted Operating Income (b)	(32,972)	(32,972)
(3) Rate of Return Earned (2) / (1)	-118.09%	-118.09%
(4) Rate of Return Recommended (c)	9.50%	10.50%
(5) Required Operating Income (1) x (4)	2,652	2,932
(6) Income Deficiency (5) - (2)	35,624	35,904
(7) Gross Revenue Conversion Factor (d)	1.240557	1.240557
(8) Revenue Increase Required (6) x (7)	44,193	44,541
(9) Revenue Increase Recommended	44,193	44,541
(10) Adjusted Operating Revenue (b)	85,775	85,775
(11) Revenue Requirements (9) + (10)	\$ 129,968	\$ 130,316
(12) Increase Over Current Revenue (9) / (10)	51.52%	51.93%

(a) Staff's Schedule B-1

(b) Staff's Schedule C-2

(c) Refer to Rate of Return Section

(d) Staff's Schedule A-1.1

SCHEDULE A-1.1

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Uncollectibles (1) x 0.436716% (a)	<u>0.436716</u>
(3) Net Revenue (1) - (2)	99.563284
(4) Ohio Gross Receipts Tax (3) x 4.750000%(b)	<u>4.729256</u>
(5) Income Before Federal Income Taxes (3) - (4)	94.834028
(6) Federal Income Taxes (7) x 15.000000%(c)	<u>14.225104</u>
(7) Operating Income Percentage (5) - (6)	80.608924
(8) Gross Revenue Conversion Factor (1) / (7)	<u>1.240557</u>

(a) Staff's Schedule C-1.1

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Increase in Ohio Gross Receipts Tax	\$ 2,098
(2) Staff's Recommended Revenue Increase (Schedule A-1)	44,367
(3) Uncollectibles	<u>194</u>
(4) Net Revenue Increase	44,173
(5) Effective Ohio Gross Receipts Tax (1) / (4)	<u>\$ 4.750000%</u>

(c) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (Footnote (b))	\$ 44,173
(2) Increase in Ohio Gross Receipts Tax	<u>2,098</u>
(3) Net Revenue Increase (1) - (2)	42,075
(4) Increase in Federal Income Taxes	<u>6,311</u>
(5) Effective FIT Rate (4) / (3)	<u>\$ 15.000000%</u>

SCHEDULE B-1

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Rate Base Summary
As of Date Certain, December 31, 2008

(1) Plant in Service (a)	\$ 79,824
(2) Depreciation Reserve (b)	<u>59,004</u>
(3) Net Plant in Service (1) - (2)	20,820
(4) Construction Work in Progress (c)	0
(5) Working Capital Allowance (d)	7,017
(6) Other Rate Base Items (e)	<u>83</u>
(7) Rate Base (3) Thru (6)	<u>\$ 27,920</u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) Staff's Schedule B-5
- (e) Staff's Schedule B-6

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Jurisdictional Plant In Service

Acct. No. Description	Applicant's Unadjusted (a)	Adjustments (b)	Staff's Adjusted Jurisdictional (c)
<u>Intangible Plant:</u>			
301 Organization	\$ 221	\$	\$ 221
302 Franchises & Consents			
303 Misc. Intangible Plant			
Total Intangible Plant	221		221
<u>Source of Supply Plant:</u>			
310 Land & Land Rights			
311 Structures & Improvements			
312 Collecting & Impounding Res.			
313 Lake, River & Other Intakes			
314 Wells & Springs			
316 Supply Mains			
Total Source of Supply Plant	0		0
<u>Pumping Plant:</u>			
320 Land and Land Rights			
321 Structures & Improvements			
323 Other Power Prod. Equip.			
325 Electric Pumping Equip.			
326 Diesel Pumping Equipment			
328 Other Pumping Equip.			
Total Pumping Plant	0		0
<u>Water Treatment Plant:</u>			
330 Land and Land Rights			
331 Structures & Improvements			
332 Water Treatment Equip.			
Total Water Treatment Plant	0		0
<u>Transmission & Distribution Plant:</u>			
340 Land & Land Rights			
341 Structures & Improvements			
342 Distr. Reser. & Standpipes			
343 Trans. and Distr. Mains	55,192		55,192
345 Services	8,993		8,993
346 Meters	8,988		8,988
347 Meter Installations			
348 Hydrants	5,670		5,670
Total Transmission & Distribution Plant	\$ 78,843	\$	\$ 78,843

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Jurisdictional Plant in Service

Acct. No. Description	Applicant's Unadjusted (a)	Adjustments (b)	Staff's Adjusted Jurisdictional (c)
<u>General Plant:</u>			
389 Land & Land Rights	\$	\$	\$
390 Structures & Improvements			
390 Limited Term Utility Plant			
391.1 Office Furniture			
391.2 Computer Equip. & Software			
391.3 Office Machines & Equip.			
392 Transportation Equip.			
393 Stores Equipment			
394 Tools, Shop, & Garage Equip.			
395 Laboratory Equip.			
396 Power Operated Equip.	760		760
397 Communication Equipment			
398 Miscellaneous Equipment			
Total General Plant	760		760
Total Water Plant in Service	\$ 79,824		\$ 79,824

- (a) Applicant's 2008 PUCO Annual Report
(b) None
(c) Columns (a) + (b)

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Jurisdictional Depreciation Reserve

Acct. No. Description	Applicant's Unadjusted (a)	Adjustments (b)	Staff's Adjusted Jurisdictional (c)
<u>Intangible Plant:</u>			
301 Organization	\$	\$	\$
302 Franchises & Consents			
303 Misc. Intangible Plant			
Total Intangible Plant	0		0
<u>Source of Supply Plant:</u>			
310 Land & Land Rights			
311 Structures & Improvements			
312 Collecting & Impounding Res.			
313 Lake, River & Other Intakes			
314 Wells & Springs			
316 Supply Mains			
Total Source of Supply Plant	0		0
<u>Pumping Plant:</u>			
320 Land and Land Rights			
321 Structures & Improvements			
323 Other Power Prod. Equip.			
325 Electric Pumping Equip.			
326 Diesel Pumping Equipment			
328 Other Pumping Equip.			
Total Pumping Plant	0		0
<u>Water Treatment Plant:</u>			
330 Land and Land Rights			
331 Structures & Improvements			
332 Water Treatment Equip.			
Total Water Treatment Plant	0		0
<u>Transmission & Distribution Plant:</u>			
340 Land & Land Rights			
341 Structures & Improvements			
342 Distr. Reser. & Standpipes			
343 Trans. and Distr. Mains	34,746		34,746
345 Services	11,676		11,676
346 Meters	8,126		8,126
347 Meter Installations			
348 Hydrants	4,456		4,456
Total Transmission & Distribution Plant	\$ 59,004		\$ 59,004

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Jurisdictional Depreciation Reserve

Acct. No. Description	Applicant's <u>Unadjusted</u> (a)	<u>Adjustments</u> (b)	Staff's Adjusted <u>Jurisdictional</u> (c)
<u>General Plant:</u>			
389 Land & Land Rights	\$	\$	\$
390 Structures & Improvements			
390 Limited Term Utility Plant			
391.1 Office Furniture			
391.2 Computer Equip. & Software			
391.3 Office Machines & Equip.			
392 Transportation Equip.			
393 Stores Equipment			
394 Tools, Shop, & Garage Equip.			
395 Laboratory Equip.			
396 Power Operated Equip.			
397 Communication Equipment			
398 Miscellaneous Equipment			
Total General Plant	<u>0</u>		<u>0</u>
Total Water Plant in Service	\$ <u>59,004</u>		\$ <u>59,004</u>

- (a) Applicant's 2008 PUCO Annual Report
(b) None
(c) Columns (a) + (b)

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Jurisdictional Depreciation Expense

Acct. No. Description	Jurisdictional Plant In Service (a)	Accrual Rate (b)	Jurisdictional Depreciation Expense (c)
<u>Intangible Plant:</u>			
301 Organization	\$		\$
302 Franchises & Consents	221	0.00%	0
303 Misc. Intangible Plant			
Total Intangible Plant	221		0
<u>Source of Supply Plant:</u>			
310 Land & Land Rights			
311 Structures & Improvements			
312 Collecting & Impounding Res.			
313 Lake, River & Other Intakes			
314 Wells & Springs			
316 Supply Mains			
Total Source of Supply Plant	0		0
<u>Pumping Plant:</u>			
320 Land and Land Rights			
321 Structures & Improvements			
323 Other Power Prod. Equip.			
325 Electric Pumping Equip.			
326 Diesel Pumping Equipment			
328 Other Pumping Equip.			
Total Pumping Plant	0		0
<u>Water Treatment Plant:</u>			
330 Land and Land Rights			
331 Structures & Improvements			
332 Water Treatment Equip.			
Total Water Treatment Plant	0		0
<u>Transmission & Distribution Plant:</u>			
340 Land & Land Rights			
341 Structures & Improvements			
342 Distr. Reser. & Standpipes			
343 Trans. and Distr. Mains	55,192	1.53%	844
345 Services	8,993	2.50%	225
346 Meters	8,988	3.14%	282
347 Meter Installations			
348 Hydrants	5,670	1.49%	84
Total Trans. & Distribution Plant	\$ 78,843		\$ 1,435

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Jurisdictional Depreciation Expense

Acct. No. Description	Jurisdictional Plant In Service (a)	Accrual Rate (b)	Jurisdictional Depreciation Expense (c)
<u>General Plant:</u>			
389 Land & Land Rights	\$		\$
390 Structures & Improvements			
390 Limited Term Utility Plant			
391.1 Office Furniture			
391.2 Computer Equip. & Software			
391.3 Office Machines & Equip.			
392 Transportation Equip.			
393 Stores Equipment			
394 Tools, Shop, & Garage Equip.			
395 Laboratory Equip.			
396 Power Operated Equip.	760	(d)	
397 Communication Equipment			
398 Miscellaneous Equipment			
Total General Plant	760		0
Total Water Plant in Service	\$ 79,824		\$ 1,435

- (a) Staff's Schedule B-2
(b) See Text
(c) Columns (a) x (b)
(d) Fully Depreciated

SCHEDULE B-4

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Construction Work In Progress Summary

None

SCHEDULE B-5

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Working Capital Allowance

(1) Operation & Maintenance Expense (a)	\$ 111,936
(2) Expense Lag Dollars (1) / 12	9,328
(3) Materials & Supplies (b)	0
(4) 1/4 of Operating Taxes (c)	<u>2,311</u>
(5) Working Capital (2) + (3) - (4)	<u>\$ 7,017</u>

(a) Staff's Schedule C-2

(b) Applicant Does Not Maintain M & S Inventory

(c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

SCHEDULE B-6

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Other Rate Base Items

(1) Defered Taxes (a)

\$ 83

(a) Staff's Schedule C-4

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2008

	Staff		
	<u>Adjusted</u> <u>Revenues &</u> <u>Expenses</u>	<u>Proforma</u> <u>Adjustments</u>	<u>Proforma</u> <u>Revenues &</u> <u>Expenses</u>
	(a)	(b)	(c)
<u>Operating Revenues</u>			
Base	\$ 84,704	\$ 55,538	\$ 140,242
Other	<u>1,071</u>	<u>680</u>	<u>1,751</u>
Total Operating Revenues	85,775	56,218	141,993
<u>Operating Expenses</u>			
Operation and Maintenance	111,936	243	112,179
Depreciation	1,434		1,434
Taxes, Other Than Income	9,327	2,659	11,986
Federal Income Taxes	<u>(3,950)</u>	<u>7,997</u>	<u>4,047</u>
Total Operating Expenses	118,747	10,899	129,646
Net Operating Income	\$ <u>(32,972)</u>	\$ <u>45,319</u>	\$ <u>12,347</u>
Rate Base (d)	\$ <u>27,920</u>		\$ <u>27,920</u>
Rate of Return (e)	<u>-118.09%</u>		<u>44.20%</u>

- (a) Staff's Schedule C-2
(b) Staff's Schedule C-1.1
(c) Columns (a) + (b)
(d) Staff's Schedule B-1
(e) Net Operating Income / Rate Base

SCHEDULE C-1.1

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 55,538
(2) Late Payment Revenue (1) x 1.224080% (b)	<u>680</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u>56,218</u>
(4) Uncollectible Accounts Expense (3) x 0.436716% (c)	\$ <u>243</u>
(5) Ohio Gross Receipts Tax (d)	\$ <u>2,659</u>
(6) Federal Income Tax (e)	\$ <u>7,997</u>

- (a) Staff's Schedule C-1.1a
- (b) Staff's Schedule C-3.2
- (c) Staff's Schedule C-3.4
- (d) Staff's Schedule C-3.6
- (e) Staff's Schedule C-4

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Summary of Operating Revenues at Current and Proposed Rates

	Annual Number of Customers (a)	Test Year Consumption (CU) (b)	Current Monthly Rate (c)	Current Revenue (d)	Proposed Rate (e)	Proposed Revenue (f)	Increase (g)	Increase % (h)
(1) Water Revenue	192	643,560	\$ 24.16	\$ 55,665	\$ 40.04	\$ 92,252	\$ 36,588	65.73%
	192	586,480	0.0463	27,154	0.0765	44,866	17,712	65.23%
	192	49,360	0.0382	1,886	0.0633	3,124	1,239	65.71%
(2) Total Base Revenue		1,279,400		\$ 84,704		\$ 140,242	\$ 55,538	
(3) Late Payment Ratio (i)				0.0122408		0.0122408	0.0122408	
(4) Late Payment Revenue (2) x (3)				1,037		1,717	680	
(5) Total Revenue (2)+ (4)				\$ 85,741		\$ 141,959	\$ 56,218	

- (a) Applicant's Response to Staff's Request regarding 2008 Usage
(b) Applicant's Response to Staff's Request regarding 2008 Usage and 2008 PUCO Annual Report
(c) Applicant's Current PUCO Tariff
(d) Number of Customers or Consumption X Current Rates
(e) Applicant's Proposed Tariff
(f) Number of Customers or Consumption X Proposed Rates
(g) Proposed Revenue (f)- Less Current Revenue (d)
(h) Increase (g) Divided By Current Revenue(d)
(i) Derived From Applicant's 2008 General Ledger.
Unadjusted Late Payment Revenue (\$992) Divided By Unadjusted Sales Revenue (\$81,040)

SCHEDULE C-2

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Adjusted Test Year Operating Income

	Staff		
	Test Year Revenues & Expenses	Adjustments	Adjusted Revenues & Expenses
	(a)	(b)	(c)
<u>Operating Revenues</u>			
Water Sales	\$ 81,040	\$ 3,664	\$ 84,704
Other	1,027	44	1,071
Total Operating Revenues	82,067	3,708	85,775
<u>Operating Expenses</u>			
Operation & Maintenance	109,066	2,870	111,936
Depreciation & Amortization	1,986	(552)	1,434
Taxes, Other Than Income	9,384	(57)	9,327
Income Taxes		(3,950)	(3,950)
Total Operating Expenses	120,436	(1,689)	118,747
Net Operating Income	\$ (38,369)	\$ 5,397	\$ (32,972)

- (a) Applicant's 2008 PUCO Annual Report
(b) Staff's Schedule C-3
(c) Columns (a) + (b)

SCHEDULE C-3

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Summary of Staff's Adjustments

<u>Operating Revenues</u>	
C-3.1 Sales Revenue Adjustment	\$ 3,664
C-3.2 Late Payment Revenue Adjustment	<u>44</u>
Total Revenue Adjustments	\$ <u>3,708</u>
 <u>Operating Expenses</u>	
C-3.3 Rate Case Expense Adjustment	\$ 2,500
C-3.4 Uncollectable Expenses Adjustment	<u>370</u>
Total O & M Expenses	2,870
C-3.5 Depreciation & Amortization	(552)
C-3.6 Taxes Other Than Income	(57)
C-3.7 Federal Income Taxes	<u>(3,950)</u>
Total Expense Adjustments	\$ <u>(1,689)</u>

Source: Staff's Schedules C-3.1 Through C-3.7

SCHEDULE C-3.1

**CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Sales Revenue Adjustment**

(1) Annualized Sales Revenue (a)	\$	84,704
(2) Test Year Sales Revenue (b)		81,040
(3) Adjustment (1) - (2)	\$	3,664

- (a) Staff's Schedule C-1.1a and Applicant's Test Year Usage Data**
(b) Applicant's 2008 PUCO Annual Report

SCHEDULE C-3.2

**CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Late Payment Revenue Adjustment**

(1) Adjusted Base Revenue (a)	\$	84,704
(2) Late Payment Rate (b)		1.224080%
(3) Late Payment Revenues (1) x (2)		1,037
(4) Test Year Late Payment Revenue (c)		993
(5) Adjustment (3) - (4)	\$	44

(a) Staff's Schedule C-3.1

(b) Derived From Applicant's 2008 General Ledger, Unadjusted

Late Payment Revenue (\$992) Divided by Unadjusted Sales Revenue (\$81,040)

(c) Applicant's 2008 PUCO Annual Report

SCHEDULE C-3.3

**CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Rate Case Expense Adjustment**

(1) Estimated Rate Case Expense (a)	\$	7,500
(2) Amoritization Period		3
(3) Adjustment (1)/(2)	\$	<u>2,500</u>

(a) Refer to Staff's Text on page 6

SCHEDULE C-3.4

**CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Uncollectable Expenses Adjustment**

(1) Adjusted Operating Revenues (a)	\$ 84,704
(2) Uncollectable Accounts Ratio (b)	<u>0.436716%</u>
(3) Adjusted Uncollectable Accounts Expense (1)x (2)	370
(4) Test Year Uncollectable Expense (c)	<u>0</u>
(5) Adjustment (3) - (4)	\$ <u>370</u>

- (a) Staff's Schedule C-2**
- (b) Staff's Workpaper WPC-3.4**
- (c) Applicant's 2008 PUCO Annual Report**

SCHEDULE C-3.5

**CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Depreciation Expense Adjustment**

(1) Adjusted Depreciation Expense (a)	\$ 1,435
(2) Test Year Depreciation Expense (b)	<u>1,987</u>
(3) Adjustment (1) - (2)	\$ <u>(552)</u>

- (a) Staff's Schedule B-3.2**
- (b) Applicant's 2008 PUCO Annual Report**

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Summary of Taxes Other Than Income Adjustments

	<u>Schedule Reference</u>	<u>Adjusted Taxes</u>
(1) Ohio Gross Receipts Tax	SCHEDULE C-3.6a	\$ 2,869
(2) PUCO and OCC Assessments	SCHEDULE C-3.6b	202
(3) Ohio Property Tax	SCHEDULE C-3.6c	<u>6,256</u>
(4) Total Taxes Other Than Income (1) thru (3)		9,327
(5) Test Year Taxes Other than Income (a)		<u>9,384</u>
(6) Adjustment (4) - (5)		\$ <u>(57)</u>

(a) Applicant's 2008 PUCO Annual Report

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Ohio Gross Receipts Tax

	<u>Adjusted Operating Income</u>	<u>Proforma Operating Income</u>
(1) Gross Operating Revenue (a)	\$ 85,775	\$ 141,993
(2) Uncollectibles (1) x 0.436716% (b)	375	620
(3) Statutory Exemption	<u>25,000</u>	<u>25,000</u>
(4) Net Taxable Revenue (1) - (2) - (3)	60,400	116,373
(5) Tax Rate	<u>4.75%</u>	<u>4.75%</u>
(6) Gross Receipts Tax (4) x (5)	\$ 2,869	\$ 5,528

- (a) Staff's Schedule C-1**
(b) Staff's Schedule C-3.4

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
PUCO and OCC Assessment

(1) PUCO Assessment (a)	\$	102
(2) OCC Assessment (a)		100
(3) Total Assessments (1) + (2)	\$	<u>202</u>

(a) Latest Known Assessments

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Real Estate Tax

(1) Annual Real Estate Tax Expense (a) **\$ 6,256**

(a) Applicant's 2008 Property Tax Invoices

SCHEDULE C-3.7

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Federal Income Tax Expense Adjustment

(1) Adjusted Federal Income Tax (a)	\$	(3,950)
(2) Test Year Federal Income Tax (b)		<u>0</u>
(3) Adjustment (1)- (2)	\$	<u>(3,950)</u>

- (a) Staff's Schedule C-4**
(b) Applicant's 2008 PUCO Annual Report

SCHEDULE C-4

CHRISTI WATER SYSTEM, INC.
Case No. 09-569-WS-AIR
Calculation of Federal Income Taxes

	<u>Adjusted Operating Income</u>	<u>Proforma Operating Income</u>
(1) Operating Income Before FIT (a)	\$ (38,922)	\$ 16,394
<u>Reconciling Items:</u>		
(2) Interest Charges (b)	10,585	10,585
(3) Book Depreciation (c)	1,435	1,435
(4) Tax Accelerated Depreciation (b)	<u>1,987</u>	<u>1,987</u>
(5) Excess of Tax Over Book Depreciation (3) - (4)	(552)	(552)
(6) Total Reconciling Items (2) + (5)	10,033	10,033
(7) Federal Taxable Income (1) + (6)	(26,889)	26,427
<u>Federal Income Taxes</u>		
(8) First \$50000 x 15%	(4,033)	3,964
(9) Next \$25000 x 25%	0	0
(10) Next \$25000 x 14%	0	0
(11) Next \$235000 x 39%	<u>0</u>	<u>0</u>
(12) Federal Income Taxes (8) Through (11)	(4,033)	3,964
(13) Investment Tax Credit Utilized	<u>0</u>	<u>0</u>
(14) Federal Income Taxes - Current (12) - (13)	(4,033)	3,964
<u>Deferred Income Taxes:</u>		
(15) Tax Accelerated Depreciation (b)	1,987	1,987
(16) Tax Straight Line Depreciation (c)	<u>1,435</u>	<u>1,435</u>
(17) Excess of Tax Accelerated over Tax S/L Deprec. (15) - (16)	552	552
(18) Deferred @0.15%	83	83
(19) Total Federal Income Taxes (14) + (18)	\$ <u>(3,950)</u>	\$ <u>4,047</u>

- (a) Staff's Schedule C-1
- (b) Applicant's 2008 PUCO Annual Report
- (c) Staff's Schedule C-3.5

Monthly Typical Bill Analysis

User Residential Customer
(including purchased water charge)

<u>Month</u>	<u>Average Usage</u>	<u>Current Bill</u>	<u>Applicant Bill</u>	<u>Staff Bill</u>	<u>Dollar Applicant</u>	<u>Difference Staff</u>	<u>Percent Applicant</u>	<u>Difference Staff</u>
January	536	\$ 37.03	\$ 57.33	\$ 56.19	\$ 20.30	\$ 19.16	54.8%	51.7%
February	465	33.51	51.90	49.66	18.39	16.15	54.9	48.2
March	528	36.63	56.72	55.46	20.09	18.83	54.8	51.4
April	500	35.25	54.58	52.88	19.33	17.63	54.8	50.0
May	538	37.13	57.48	56.38	20.35	19.25	54.8	51.8
June	610	40.69	62.99	63.01	22.30	22.32	54.8	54.9
July	606	40.49	62.68	62.64	22.19	22.15	54.8	54.7
August	661	43.21	66.89	67.71	23.68	24.50	54.8	56.7
September	620	41.19	63.76	63.93	22.57	22.74	54.8	55.2
October	600	40.20	62.23	62.09	22.03	21.89	54.8	54.5
November	522	36.33	56.26	54.91	19.93	18.58	54.9	51.1
December	534	36.93	57.18	56.01	20.25	19.08	54.8	51.7