

FILE

26

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Aqua )  
Ohio, Inc. For Authority to Increase its Rates )  
and Charges in its Masury Division. )

Case No. 09-560-WW-AIR

AQUA OHIO INC.'S OBJECTIONS TO  
THE PUBLIC UTILITIES COMMISSION OF OHIO STAFF REPORT OF  
INVESTIGATIONS IN THE AQUA OHIO, INC. MASURY DIVISION RATE CASE

In accordance with Ohio Revised Code §4909.19 and Ohio Administrative Code 4901-1-28(B), now comes Applicant Aqua Ohio Inc. ("Aqua Ohio") by and through counsel and hereby raises the following five (5) objections to the Public Utilities Commission of Ohio Staff Report of Investigations ("Staff Report") filed January 21, 2010 in the above captioned case.

Objection Number 1:

Rate of Return.

Aqua Ohio has several specific objections to the Staff's Rate of Return section.

A. Business Risk

First, Staff selected publicly traded water companies listed as "Water Utilities" with Yahoo Stock Screener with capitalization above \$500 million and included in the "Water Utility" group in the Value Line Investment Survey Standard Edition. Thus, Staff's group is significantly less business risky than Aqua Ohio, which at December 30, 2008 had total capitalization of \$102.485 million as shown on Schedule D-1 of the Staff Report. Because Staff's recommended common equity cost rate is based upon the market data of a group of companies which is less business risky based upon size than Aqua Ohio, Staff's recommended common equity cost rate understates the true common equity cost rate to Aqua Ohio. An indication of the extent to which Staff's

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recommended common equity cost rate understates the true common equity cost rate is provided in Attachment 1.

Based upon Aqua Ohio's small relative size, an adjustment of 4.57% (457 basis points) is indicated based upon data from 2010 Ibbotson® Risk Premia Over Time Report – Estimates for 1926-2009. The determinations are based upon the size premia for decile portfolios of New York Stock Exchange (NYSE), American Stock Exchange (AMEX) and NASDAQ listed companies for the 1926-2009 period. A conservative adjustment of approximately 30% (30 basis points) should be made to reflect the business risk differential between Aqua Ohio and the comparable group, based upon Aqua Ohio's increased business risk and due to its small size, relative to that of Staff's Water Utility Group. Therefore, while Staff's recommended common equity cost rate understates Aqua Ohio's true common equity cost rate by at least 0.30%, in actuality it is understated by 4.57%. Adding this conservative 30 basis point adjustment to the Staff's recommended common equity cost rate range yields a common equity cost rate range of 9.03% - 10.04% using 30 basis points, which more appropriately reflects Aqua Ohio's greater relative business risk, but still understates Aqua Ohio's true common equity cost rate for reasons discussed below.

B. Capital Asset Pricing Model (CAPM)

Aqua Ohio also objects to Staff's application of the CAPM because it is flawed in five respects: 1) Staff utilized an historical yield on U.S. Treasury bonds as the risk-free rate instead of the more appropriate forecasted rate; 2) Staff inappropriately averaged the historical yield on 10-year U.S. Treasury bonds with the historical yield on 30-year U.S. Treasury bonds; 3) Staff incorrectly calculated the market equity risk premium using the total return on long-term U.S. Treasury bonds and not the income return; 4) Staff incorrectly utilized only the historical market

equity risk premium without also evaluating a prospective market equity risk premium; and 5) Staff did not include an empirical CAPM analysis to reflect the fact that the empirical Security Market Line ("SML") described by the CAPM is not as steeply sloped as the predicted SML.

Attachment 2 provides a CAPM analysis which corrects for these flaws resulting in a corrected CAPM cost rate of 10.99%. However, this CAPM result also reflects the riskiness of the larger more geographically diverse water utility group and not the greater relative riskiness experienced by Aqua Ohio due to its small size. As discussed above, a conservative adjustment of 0.30% must be added to the corrected CAPM result of 10.99% for Staff's Water Utility Group resulting a risk-adjusted corrected CAPM result of 11.29%.

C. Discounted Cash Flow (DCF) Model

Aqua Ohio also objects to Staff's DCF analysis that is also flawed, specifically in the following respects: 1) Staff's exclusive reliance upon a non-constant growth version of the DCF, implicitly rejecting constant growth version of the DCF, i.e., the standard regulatory form; and 2) Staff's use of a long-term historical growth rate in Gross National Product ("GNP").

1) Staff relied exclusively upon a non-constant growth version of the DCF, although constant DCF results, which average 10.78%, are shown on Schedules D-1.5 through D-1.8 of the Staff Report. Absent evidence to the contrary and consistent with the Efficient Market Hypothesis ("EMH") which states that all information available to investors is evaluated by investors in making their investment decisions, it is reasonable and more probable that investors would utilize the constant growth version of the DCF as it is more widely used in regulatory ratemaking than is the non-constant version used by Staff. In addition, Staff provided no theoretical or empirical support for the use of a non-constant growth DCF for water utilities. Staff provided no

evidence which supports the assumption implicit in this version of the model, that growth in EPS, DPS or stock price will approach that of the economy as a whole at any given future point in time. In fact, Staff was silent relative to its constant Growth DCF analyses.

2) Staff utilized an historical long-term growth rate in GNP as the growth rate in the third stage of the model, from year 25 through year 400. However, ratemaking as well as the cost of capital is prospective. Therefore, to properly apply the non-constant growth version of the DCF, a prospective growth rate is required. Assuming for the sake of argument and because Staff utilized growth in GNP for the final stage of the non-constant, the prospective growth in GDP ("Gross Domestic Product") (growth in GNP is no longer available) should have been utilized. Averaging the growth of 4.66% in GDP forecasted by the Energy Information Administration ("EIA") for the years 2010 - 2035 (the last year for which EIA forecasts GDP) with the growth in GDP forecasted by the Social Security Administration ("SSA") for the years 2010 - 2085 in the amount of 4.81% from each of their 2009 annual reports, results in a forecasted growth in GDP of 4.74%. This contrasts with the 6.70% historical GNP growth rate utilized by Staff. Although Staff's GNP growth rate is higher than the current average forecasts of GDP, once again the forecasts are conceptually correct, as rate making and the cost of capital are prospective.

As with the CAPM results discussed above, Aqua Ohio objects because these results reflect the riskiness of the larger, more geographically diverse Water Utility Group and not the greater relative riskiness experienced by Aqua Ohio due to its small size. A conservative size adjustment of 0.30% should have been added to the DCF results of Staff's Water Utility Group. This results in a non-constant risk-adjusted DCF result of 10.73% ( $10.73\% = 10.43\% + 0.30\%$ ). Adding this size adjustment range to Staff's average constant growth DCF results of 10.78% results in a risk-

adjusted range of constant growth DCF results of 11.08% ( $11.08\% = 10.78\% + 0.30\%$ ).

Based upon Staff's corrected and risk-adjusted analysis, the corrected CAPM result is 11.29% and non-constant DCF result is 10.73%. Staff's corrected and risk-adjusted analysis thus yields a common equity cost rate of 11.01% ( $11.01\% = (11.29\% + 10.73\%) / 2$ ). Using a 100 basis point range of uncertainty as Staff has done in its report, the corrected and risk-adjusted cost of common equity ranges from 10.51% - 11.51%. Making Staff's allowance for issuance and other costs, as shown on Schedule D-1.1 of the Staff report, using Staff's adjustment factor of 1.00985 results in a range of common equity cost rates of 10.61% to 11.62% ( $10.61\% = 10.51\% * 1.00985$  and  $11.62\% = 11.51\% * 1.00985$ ).

Using Staff's corrected and risk-adjusted CAPM results of 11.29%, Staff's risk-adjusted constant-growth DCF result of 11.08%, and Staff's 100 basis point range of uncertainty results in a corrected and risk-adjusted cost of common equity range of 10.69% - 11.69%. Making Staff's allowance for issuance and other costs, as shown on Schedule D-1.1 of the Staff report, using Staff's adjustment factor of 1.00985 results in a common equity cost rate of 10.80% ( $10.80\% = 10.69\% * 1.00985$  and  $11.81\% (11.69\% * 1.00985)$ ).

For all the reasons given above, Aqua Ohio objects to the understatement of Staff's rate of return conclusions.

Objection Number 2:

Rate Base.

A. Removal of Trumbull County Property.

At page 26 of the Staff Report, the Staff notes that "Trumbull County has requested that the Company maintain the meter pits should they ever need to take water service from Aqua Ohio." However, on page 3 of the Report, Staff notes that it has adjusted Account 346, Meters, to exclude meter facilities that were formerly used to serve Trumbull County and that were no longer used and useful as of the date certain for this case. It is unreasonable to require Aqua to maintain these meter pits while removing the pits from plant in service. Meter facilities previously used to serve Trumbull County should be restored to the Rate Base in plant in service so that Aqua may maintain the meters in response to the request from Trumbull County.

B. Trumbull County Plant Depreciation.

On page 4 of the Staff Report, the Staff notes an adjustment to Depreciation Reserve of \$23,679 to exclude reserve associated with the Trumbull County Meters adjustment discussed in the Plant In Service section. (Referred to above.) However, as reflected on Schedule B-2.1 page 1 of 2 of the Staff Report, the adjustment to Plant in Service for the exclusion of the Trumbull County meter pits was \$26,998.

As shown on Aqua Ohio's proposed Schedule C-1, attached hereto and incorporated herein by reference, the Reserve for Accumulated Depreciation should be debited for (\$26,998). When a piece of property is retired and taken out of service, the Accumulated reserve for depreciation is debited for the same amount as the retirement.

### Objection Number 3:

#### Other Adjustments

##### A. Disallowance of Postage and Processing Fees for Monthly Bills.

On page 9 of the Staff Report, Staff notes that it does not agree with Aqua Ohio's request to adjust Schedule C-3 to the postage and processing fees to reflect a change from bi-monthly to monthly billing. Staff notes that while the Commission approved a change to monthly bills in 2007, Aqua has not yet implemented the change. As noted in the Staff Report, Aqua plans to enact monthly billing shortly after the completion of the case, but prior to the recovery of any additional revenue. Staff maintains that since the billing change has not taken place, Aqua has not yet incurred the increased expense for postage and handling.

The adjustment to Schedule C-3 requested by Aqua should be approved. Aqua should not be forced to absorb the additional expense for monthly billing. If customers benefit from the receipt of monthly bills, Aqua should be able to recover the additional costs associated with monthly bills.

##### B. Rate Case Expense.

On page 7 of the Staff Report, Staff recommends that the amortization period for rate case expense be adjusted to five (5) years, rather than Aqua's requested three (3) year period. However, the Masury Division has a Capital Budget of Three Hundred Thousand Dollars (\$300,000) over the next 3 years. This represents a fourteen percent (14%) increase in Rate Base for the Masury Division to be added to the Rate Base calculated for the present filing. The degree of increase in capital spending, along with anticipated increase in costs will necessitate the filing of another rate case within the next three (3) years. Since Aqua will need to file an additional rate case within the next three years, three years is a more appropriate amortization period for rate case expense than the

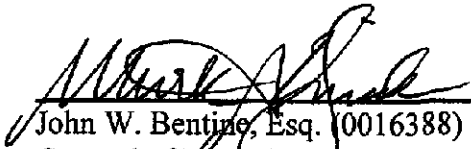
five year period recommended by Staff.

C. Federal Income Tax Rate.

As reflected on Schedules C-3.11 and C-4 to the Staff Report, Staff has calculated the Federal Income Tax rate for the Masury Division as though the Masury Division were a stand alone company, instead of part of a larger corporate entity. As noted on page 21 of the Staff Report, while the Masury Division is classified as "small" it is a subsidiary of a "large" water company. Since the Masury Division is part of a much larger entity, the consolidated Federal Income Tax rate should be 35%. The correct adjustments are shown on Aqua's proposed Schedule TW-1, attached hereto and incorporated herein as if fully set forth.

Aqua Ohio also objects to the Staff Report's use of the book depreciation number (line 21 in the tax calculation) in calculating the deferred tax. Aqua has provided exhibit TW-1 and TW-2 a revised calculation of the Tax straight line depreciation that should instead be used on Line 21 to calculate the deferred tax.

Respectfully submitted,



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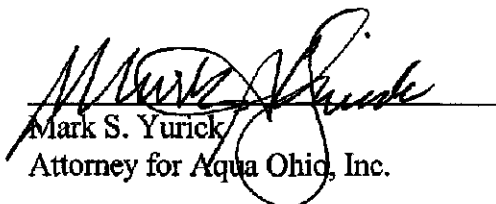
### CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing *Objections to the Public Utilities Commission of Ohio Staff Report of Investigations in Aqua Ohio Inc. Masury Division Rate Case by Aqua Ohio* has been served upon the following persons, via regular U.S. mail, postage prepaid, this 22<sup>nd</sup> day of February, 2010.

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2/6/10 SCHEDULE A-1  
10:25 AM

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-NW-AIR  
Revenue Requirements

| STAFF REPORT                                  |                  |    |                |                |
|---|------------------|----|----------------|----------------|
|   | Applicant<br>(a) |    | Lower<br>Bound | Upper<br>Bound |
| (1) Rate Base (b)                             | \$ 2,188,763     | \$ | 2,179,641      | \$ 2,179,641   |
| (2) Adjusted Operating Income (c)             | (41,263)         |    | (25,617)       | (25,617)       |
| (3) Rate of Return Earned (2) / (1)           | -1.98%           |    | -1.18%         | -1.18%         |
| (4) Rate of Return Recommended (d)            | 8.69%            |    | 7.54%          | 8.05%          |
| (5) Required Operating Income (1) x (4)       | \$ 190,204       | \$ | 164,345        | \$ 175,461     |
| (6) Income Deficiency (5) - (2)               | 231,467          |    | 189,962        | 201,098        |
| (7) Gross Revenue Conversion Factor (e)       | 1.6713           |    | 1.645924       | 1.645924       |
| (8) Revenue Increase Required (6) x (7)       | 390,193          |    | 312,695        | 330,991        |
| (9) Revenue Increase Recommended              | 389,957          |    | 312,695        | 330,991        |
| (10) Adjusted Operating Revenue (c)           | 482,461          |    | 482,461        | 482,461        |
| (11) Revenue Requirements (9) + (10)          | \$ 872,418       | \$ | 795,156        | \$ 811,452     |
| (12) Increase Over Current Revenue (9) / (10) | 80.81%           |    | 64.81%         | 68.60%         |

| REVISED                                  |                  |    |                |                |
|--|------------------|----|----------------|----------------|
|  | Applicant<br>(a) |    | Lower<br>Bound | Upper<br>Bound |
| Rate Base (b)                            | \$ 2,182,960 (h) |    | 2,182,960      | \$ 2,182,960   |
| Adjusted Operating Income (c)            | (43,151) (E)     |    | (43,151)       | (43,151)       |
| Rate of Return Earned (2) / (1)          | -1.98%           |    | -1.98%         | -1.98%         |
| Rate of Return Recommended (d)           | 8.69%            |    | 7.54%          | 8.05%          |
| Required Operating Income (1) x (4)      | \$ 189,699       | \$ | 164,595        | \$ 175,728     |
| Income Deficiency (5) - (2)              | 232,850          |    | 207,746        | 218,879        |
| Gross Revenue Conversion Factor (e)      | 1.6713 (g)       |    | 1.671300       | 1.671300       |
| (a) Revenue Increase Required (6) x (7)  | 389,162          |    | 347,206        | 365,812        |
| (b) Revenue Increase Recommended         | 389,162          |    | 347,206        | 365,812        |
| (d) Adjusted Operating Revenue (c)       | 482,461          |    | 482,461        | 482,461        |
| Revenue Requirements (9) + (10)          | \$ 871,623       | \$ | 829,667        | \$ 848,273     |
| Increase Over Current Revenue (9) / (10) | 80.66%           |    | 71.97%         | 75.82%         |

- (f) See Revised C-1  
(g) See Revised A-1.1  
(h) See Revised rate base calculation Exhibit D

2/6/10  
10:25 AM

SCHEDULE A-1.1

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-NW-AIR  
Calculation of Gross Revenue Conversion Factor

|  |                  | REVISED<br>STAFF REPORT |
|--|------------------|-------------------------|
| (1) Gross Revenue                                | 100.000000       | 100.000000              |
| (2) Uncollectibles (1) x 3.3566% (a)             | <u>3.356600</u>  | <u>3.356600</u>         |
| (3) Net Revenue (1) - (2)                        | 96.643400        | 96.643400               |
| (4) Ohio Gross Receipts Tax (3) x 4.748% (b)     | <u>4.588629</u>  | <u>4.588629</u>         |
| (5) Income Before Federal Income Taxes (3) - (4) | 92.054771        | 92.054771               |
| (6) Federal Income Taxes (5) x 34.00% (c)        | <u>31.298622</u> | <u>32.219170</u>        |
| (7) Operating Income Percentage (5) - (6)        | 60.756149        | 59.835601               |
| (8) Gross Revenue Conversion Factor (1) / (7)    | <u>1.645924</u>  | <u>1.671246</u>         |

(a) Staff's Schedule C-3.6

(b) Derived From Staff's Schedule C-1.1 as Follows:

|   |                  |
|---|------------------|
| (1) Increase in Ohio Gross Receipts Tax     | \$ 18,539        |
| (2) Proposed Total Revenue Increase         | 404,030          |
| (3) Uncollectibles                          | <u>13,562</u>    |
| (4) Net Revenue Increase (2) - (3)          | 390,468          |
| Effective Gross Receipts Tax Rate (1) / (4) | \$ <u>4.748%</u> |

(c) Derived From Staff's Schedule C-1.1 as Follows:

|   |                 |
|---|-----------------|
| (1) Net Revenue Increase                | \$ 390,468      |
| (2) Increase in Ohio Gross Receipts Tax | <u>18,539</u>   |
| (3) Net Revenue Increase (1) - (2)      | 371,929         |
| (4) Increase in Federal Income Taxes    | <u>9127.017</u> |
| (5) Effective FIT Rate (4) / (3)        | 34.00%          |

(d) Adjusted FIT rate to 35%

2/6/10 SCHEDULE B-1  
10:25 AM

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-WW-AIR  
Rate Base Summary  
As of Date Certain, June 30, 2008

STAFF REPORT

|                                   | <u>Applicant</u><br>(a) | <u>Staff</u>        |     |
|-----------------------------------|-------------------------|---------------------|-----|
| (1) Plant in Service              | \$ 3,332,634            | \$ 3,305,636        | (b) |
| (2) Depreciation Reserve          | <u>(880,445)</u>        | <u>(856,766)</u>    | (c) |
| (3) Net Plant in Service          | \$ 2,452,189            | \$ 2,448,870        |     |
| (4) Construction Work in Progress | 0                       | 0                   | (d) |
| (5) Working Capital Allowance     | 0                       | 0                   | (e) |
| (6) Less: Other Rate Base Items   | <u>263,426</u>          | <u>269,229</u>      | (f) |
| (7) Rate Base (3) Thru (6)        | \$ <u>2,188,763</u>     | \$ <u>2,179,641</u> |     |

REVISED

|                                   | <u>Applicant</u><br>(a) | <u>Staff</u>        |     |
|-----------------------------------|-------------------------|---------------------|-----|
| (1) Plant in Service              | \$ 3,332,634            | \$ 3,332,634        | (b) |
| (2) Depreciation Reserve          | <u>(880,445)</u>        | <u>(880,445)</u>    | (c) |
| (3) Net Plant in Service          | \$ 2,452,189            | \$ 2,452,189        |     |
| (4) Construction Work in Progress | 0                       | 0                   | (d) |
| (5) Working Capital Allowance     | 0                       | 0                   | (e) |
| (6) Less: Other Rate Base Items   | <u>269,229</u>          | <u>269,229</u>      | (f) |
| (7) Rate Base (3) Thru (6)        | \$ <u>2,182,960</u>     | \$ <u>2,182,960</u> | (g) |

- (a) Applicant's Schedule B-1  
(b) Staff's Schedule B-2  
(c) Staff's Schedule B-3  
(d) Staff's Schedule B-4  
(e) Staff's Schedule B-5  
(f) Staff's Schedule B-6  
(g) See Revised rate base Exhibit D

AQUA OHIO inc. Masury division  
Case No 09-560-WW-AIR  
Calculation of Rate Base Adjustment

EXHIBIT D

**STAFF**

|   |                  |              |
|---|------------------|--------------|
| Rate Base Staff Report                    | 2,179,641        |              |
| Add Back Trumbull County Meter Vaults     | 26,998           |              |
| Subtract depreciationreserve on T. County | (23,679)         |              |
| Adjusted Rate Base                        | <u>2,182,960</u> | Revised B -1 |

**APPLICANT**

|                           |                  |              |
|---------------------------|------------------|--------------|
| Rate Base per filing      | 2,188,763        |              |
| Deferred Taxes adjustment | (5,803)          |              |
| Adjusted rate base        | <u>2,182,960</u> | Revised B -1 |

02/06/10 SCHEDULE C-1  
10:25 AM

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-WR-AIR  
Proforma Operating Income Statement  
For The Twelve Months Ending December 31, 2008

STAFF REPORT

|                           | Staff                            |                          | Applicant                        |
|---------------------------|----------------------------------|--------------------------|----------------------------------|
|                           | Adjusted Revenues & Expenses (a) | Proforma Adjustments (b) | Proforma Revenues & Expenses (d) |
| <b>Operating Revenues</b> |                                  |                          |                                  |
| Base                      | \$ 458,293                       | \$ 396,833               | \$ 655,126                       |
| Other                     | 24,168                           | 7,197                    | 31,365                           |
| Total Operating Revenues  | 482,461                          | 404,030                  | 886,491                          |
| <b>Operating Expenses</b> |                                  |                          |                                  |
| Operation and Maintenance | 308,765                          | 13,562                   | 322,327                          |
| Depreciation              | 66,156                           |                          | 66,156                           |
| Taxes, Other Than Income  | 183,895                          | 18,539                   | 202,434                          |
| Federal Income Taxes      | (50,718)                         | 127,017                  | 76,299                           |
| Total Operating Expenses  | 508,098                          | 159,118                  | 667,216                          |
| Net Operating Income      | \$ (25,637)                      | \$ 244,912               | \$ 219,275                       |
| Rate Base (e)             | \$ 2,179,641                     |                          | \$ 2,179,641                     |
| Rate of Return (f)        | -1.18%                           |                          | 10.06%                           |

REVISED

|                           | Staff                            |                          | Applicant                        |
|---------------------------|----------------------------------|--------------------------|----------------------------------|
|                           | Adjusted Revenues & Expenses (a) | Proforma Adjustments (b) | Proforma Revenues & Expenses (d) |
| <b>Operating Revenues</b> |                                  |                          |                                  |
| Base                      | \$ 458,293                       | \$ 381,965               | \$ 840,258                       |
| Other                     | 24,168                           | 7,197                    | 31,365                           |
| Total Operating Revenues  | 482,461                          | 389,162                  | 871,623                          |
| <b>Operating Expenses</b> |                                  |                          |                                  |
| Operation and Maintenance | 324,547                          | 13,062                   | 337,609                          |
| Depreciation              | 66,928                           |                          | 66,928                           |
| Taxes, Other Than Income  | 185,183                          | 17,865                   | 203,048                          |
| Federal Income Taxes      | (91,046)                         | 125,382 (h)              | 74,336                           |
| Total Operating Expenses  | 525,612                          | 156,209                  | 681,921                          |
| Net Operating Income      | \$ (43,151)                      | \$ 232,953               | \$ 189,702                       |
| Rate Base (e)             | (g) \$ 2,182,960                 |                          | \$ 2,182,960                     |
| Rate of Return (f)        | -1.98%                           |                          | 8.69%                            |

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

- (g) Adjust for Trumbull County  
(h) See Revised FIT calculation C-4

02/06/10  
10:25 AM

SCHEDULE C-2

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-MW-AIR  
Adjusted Test Year Operating Income

|                             | <u>Applicant</u>                                 |                    |   | <u>Staff</u>                       |   |
|-----------------------------|--|--------------------|---|------------------------------------|---|
|                             | <u>Test Year<br/>Revenues &amp;<br/>Expenses</u> | <u>Adjustments</u> | <u>Adjusted<br/>Revenues &amp;<br/>Expenses</u> | <u>Incremental<br/>Adjustments</u> | <u>Adjusted<br/>Revenues &amp;<br/>Expenses</u> |
|                             | (a)  | (b)                | (c)   | (d)                                | (e)   |
| <u>Operating Revenues</u>   |  |                    |   |                                    |   |
| Water Sales                 | \$ 455,992                                       | \$ 2,301           | \$ 458,293                                      | \$ 0                               | \$ 458,293                                      |
| Other                       | 11,691   | 12,477             | 24,168  | 0                                  | 24,168  |
| Total Operating Revenues    | 467,683  | 14,778             | 482,461   | 0                                  | 482,461   |
| <u>Operating Expenses</u>   |  |                    |   |                                    |   |
| Operation & Maintenance     | 278,842  | 45,823             | 324,665   | (15,900)                           | 308,765   |
| Depreciation & Amortization | 63,192   | 3,350              | 66,542  | (386)                              | 66,156  |
| Taxes, Other Than Income    | 198,340  | (13,088)           | 185,252   | (1,357)                            | 183,895   |
| Income Taxes                | (51,635)   | 900                | (50,735)  | 17                                 | (50,718)  |
| Total Operating Expenses    | 488,739  | 36,985             | 525,724   | (17,626)                           | 508,098   |
| Net Operating Income        | \$ (21,056)                                      | \$ (22,207)        | \$ (43,263)                                     | \$ 17,626                          | \$ (25,637)                                     |

REVISED

|                             | <u>Applicant</u>                                 |                    |   | <u>Staff</u>                       |   |
|-----------------------------|--|--------------------|---|------------------------------------|---|
|                             | <u>Test Year<br/>Revenues &amp;<br/>Expenses</u> | <u>Adjustments</u> | <u>Adjusted<br/>Revenues &amp;<br/>Expenses</u> | <u>Incremental<br/>Adjustments</u> | <u>Adjusted<br/>Revenues &amp;<br/>Expenses</u> |
|                             | (a)  | (b)                | (c)   | (d)                                | (e)   |
| <u>Operating Revenues</u>   |  |                    |   |                                    |   |
| Water Sales                 | \$ 455,992                                       | \$ 2,301           | \$ 458,293                                      | \$ 0                               | \$ 458,293                                      |
| Other                       | 11,691   | 12,477             | 24,168  | 0                                  | 24,168  |
| Total Operating Revenues    | 467,683  | 14,778             | 482,461   | 0                                  | 482,461   |
| <u>Operating Expenses</u>   |  |                    |   |                                    |   |
| Operation & Maintenance     | 278,842  | 45,705 (j)         | 324,547   | 15,782 (f)                         | 324,547   |
| Depreciation & Amortization | 63,192   | 3,736 (k)          | 66,928  | 772 (g)                            | 66,928  |
| Taxes, Other Than Income    | 198,340  | (13,157) (l)       | 185,183   | 1,288 (h)                          | 185,183   |
| Income Taxes                | (51,635)   | 589 (m)            | (51,046)  | (328) (i)                          | (51,046)  |
| Total Operating Expenses    | 488,739  | 36,873             | 525,612   | 17,514                             | 525,612   |
| Net Operating Income        | \$ (21,056)                                      | \$ (22,095)        | \$ (43,151)                                     | \$ (17,514)                        | \$ (43,151)                                     |

- (a) Applicant's Schedule C-2  
(b) Applicant's Schedule C-3  
(c) Columns (a) + (b)  
(d) Staff's Schedule C-3  
(e) Columns (c) + (d)

- (f) Post card billing applicants schedule C-3.5 (\$2,982) and rate case expense C-3.7 (\$12,808)  
(g) Depreciation Trumbull County property Exhibit A  
(h) Property tax Trumbull County property Exhibit B  
(i) Revised FIT calculation C-4 (\$51,046 - \$50,718)  
(j) Adjusted for Lobbying C-3 (\$118)  
(k) Adjusted for CIAC See Exhibit A (\$386)  
(l) Adjusted for PUCO/OCC and Excise Tax C-3 (\$69)  
(m) See revised Tax Calculation C-4

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-NW-AIR  
Summary of Staff's Adjustments

## STAFF REPORT

|                                   | Staff's<br>Adjustments<br>(a) | Applicant's<br>Adjustments<br>(b) | Staff's<br>Incremental<br>Adjustments<br>(c) |
|-----------------------------------|-------------------------------|-----------------------------------|--|
| <u>Operating Revenues</u>         |                               |                                   |  |
| C-3.1 Metered Sales Revenue       | \$ 8,648                      | \$ 8,648                          | \$ 0   |
| C-3.2 Unmetered Sales Revenue     | (6,347)                       | (6,347)                           | 0  |
| C-3.3 Forfeited Discount Revenue  | 12,477                        | 12,477                            | 0  |
| Total Revenue Adjustments         | \$ 14,778                     | \$ 14,778                         | \$ 0   |
| <u>Operating Expenses</u>         |                               |                                   |  |
| C-3.4 Purchased Water             | \$ 4,099                      | \$ 4,099                          | \$ 0   |
| C-3.5 Lobbying Expense            | (118)                         |                                   | (118)  |
| C-3.6 Uncollectible Expense       | 3,410                         | 3,410                             | 0  |
| C-3.7 Rate Case Expense           | 19,200                        | 12,000                            | (12,800)                                     |
| C-3.8 Tank Painting               | 3,332                         | 3,332                             | 0  |
| Postage and Processing Fees       | 0                             | 2,982                             | (2,982)                                      |
| Total O & M Expenses              | 29,923                        | 45,823                            | (15,900)                                     |
| C-3.9 Depreciation & Amortization | 2,964                         | 3,350                             | (386)  |
| C-3.10 Taxes Other Than Income    | (14,445)                      | (13,086)                          | (1,357)                                      |
| C-3.11 Federal Income Taxes       | 917                           | 900                               | 17   |
| Total Expense Adjustments         | \$ 19,359                     | \$ 36,985                         | \$ (17,626)                                  |

- (a) Staff's Schedules C-3.1 Through C-3.11  
(b) Applicant's Schedule C-3  
(c) Columns (a) - (b)

## REVISED

|   | Staff's<br>Adjustments<br>(a) | Applicant's<br>Adjustments<br>(b) | Staff's<br>Incremental<br>Adjustments<br>(c) |
|---|-------------------------------|-----------------------------------|--|
| <u>Operating Revenues</u>                   |                               |                                   |  |
| C-3.1 Metered Sales Revenue                 | \$ 8,648                      | \$ 8,648                          | \$ 0   |
| C-3.2 Unmetered Sales Revenue               | (6,347)                       | (6,347)                           | 0  |
| C-3.3 Forfeited Discount Revenue            | 12,477                        | 12,477                            | 0  |
| Total Revenue Adjustments                   | \$ 14,778                     | \$ 14,778                         | \$ 0   |
| <u>Operating Expenses</u>                   |                               |                                   |  |
| C-3.4 Purchased Water                       | \$ 4,099                      | \$ 4,099                          | \$ 0   |
| C-3.5 Lobbying Expense                      | (118)                         | (118) (a)                         | 0  |
| C-3.6 Uncollectible Expense                 | 3,410                         | 3,410                             | 0  |
| C-3.7 Rate Case Expense                     | 32,000                        | 32,000 (e)                        | 0  |
| C-3.8 Tank Painting                         | 3,332                         | 3,332                             | 0  |
| Postage and Processing Fees                 | 2,982                         | 2,982                             | 0  |
| Total O & M Expenses                        | 45,705                        | 45,705                            | -  |
| C-3.9 Depreciation & Amortization           | 3,736                         | 3,736 (g)                         | 0  |
| C-3.10 Taxes Other Than Income Property Tax | (13,157)                      | (13,157) (h)                      | 0  |
| C-3.11 Federal Income Taxes                 | 0                             | - (i)                             | 0  |
| Total Expense Adjustments                   | \$ 36,284                     | \$ 36,284                         | \$ 0   |

- (e) Staff adjustment for M&M lobbying costs  
(f) Staff adjusted rate case amortization from 3 to 5 years see Revised Sch C-3.7  
(g) See Depreciation adjustment Exhibit A  
(h) Staff adjusted yOCO maintenance, OCC fund expense, and excise tax (69)  
See Property Tax adjustment Exhibit B  
(i) See Revised PIT calculation C-4



AQUA OHIO inc. Masury division  
Case No 09-560-WW-AIR  
Calculation of Depreciation Adjustment

EXHIBIT A

|  |     |              |
|--|-----|--------------|
| <b>Depreciation</b>                                  |     |              |
| Trumbull County Meter vaults disallowed              |     | 26,998       |
| Depreciation Rate                                    |     | 0.0286       |
| Staff Reduction for meter vaults                     |     | 772          |
| Staff correction for Wrong Depreciation Rate on CIAC |     | <u>(386)</u> |
| Adjustment to Staff Depreciation expense             |     | <u>386</u>   |
|  |     |              |
| Depreciation adjustment Staff Report                 | C-3 | 2,964        |
| Depreciation on T. County meter vaults               |     | 772          |
| Revised Depreciation adjustment C-3                  |     | <u>3,736</u> |

AQUA OHIO Inc. Masury division  
Case No 09-560-WW-AIR  
Calculation of Ohio Property tax

Schedule C-3.10a

EXHIBIT B

|   |    | STAFF<br>REPORT |        | APPLICANT<br>REVISED | ADJUSTMENT |
|---|----|-----------------|--------|----------------------|------------|
| 1. Jurisdictional Plant in Service at 6/30/08 (a) | \$ | 3,305,636 (c)   | 26,998 | 3,332,634            |            |
| 2. Assessment Valuation Percentage (b)            |    | 57.00%          |        | 57.00%               |            |
| 3. Assessed Property at 6/30/08 (1) x (2)         |    | 1,884,213       |        | 1,899,601            |            |
| 4. Average Property Tax Rate - Per \$1,000 (b)    |    | 83.69           |        | 83.69                |            |
| 5. Jurisdictional Property Tax (3) x (4)          |    | 157,690         |        | 158,978              | 1,288      |

- (a) Staff's Schedule B-2.1  
(b) Applicant's Schedule WPC-3.10a  
(c) Trumbull County Meter vaults

|                                      |     |         |
|--------------------------------------|-----|---------|
| Property tax adjustment Staff Report | C-3 | -14,445 |
| Property tax adjustment              |     | 1,288   |
| Revised property tax adjustment      | C-3 | -13,157 |

02/04/10 SCHEDULE C-3.7  
10:27 AM

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-MW-AIR  
Rate Case Expense Adjustment

STAFF REPORT

|                                     |                  |
|-------------------------------------|------------------|
| (1) Estimated Rate Case Expense (a) | \$ 96,000        |
| (2) Amortization Period (b)         | <u>5</u>         |
| (3) Annual Amortization (1) / (2)   | \$ <u>19,200</u> |

REVISED

|                                     |                  |
|-------------------------------------|------------------|
| (1) Estimated Rate Case Expense (a) | \$ 96,000        |
| (2) Amortization Period (b)         | (c) <u>3</u>     |
| (3) Annual Amortization (1) / (2)   | \$ <u>32,000</u> |

- (a) Applicant's Schedule C-3.7  
(b) Refer to Text  
(c) See Applicant objection

Aqua Ohio, Inc. Masury Division  
Case No. 09-560-WM-AIR  
Calculation of Federal Income Taxes

|   | STAFF REPORT                    |                                 | REVISED                         |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | Adjusted<br>Operating<br>Income | Proforma<br>Operating<br>Income | Adjusted<br>Operating<br>Income | Proforma<br>Operating<br>Income |
| (1) Operating Income Before FIT (a)                             | \$ (76,355)                     | \$ 295,574                      | (g) (94,197)                    | 264,038                         |
| <u>Reconciling Items:</u>                                       |                                 |                                 |                                 |                                 |
| (2) Interest Charges (b)  | (68,441)                        | (68,441)                        | (h) (68,545)                    | (68,545)                        |
| (3) Book Depreciation (c)                                       | 66,156                          | 66,156                          | (i) 66,928                      | 66,928                          |
| (4) Tax Accelerated Depreciation (d)                            | 92,334                          | 92,334                          | (j) 91,932                      | 91,932                          |
| (5) Excess of Tax Over Book Depreciation (3) - (4)              | (26,178)                        | (26,178)                        | (25,004)                        | (25,004)                        |
| <u>Other Reconciling Items:</u>                                 |                                 |                                 |                                 |                                 |
| (6) Rate Case Expense (e)                                       | 19,208                          | 19,208                          | 19,208                          | 19,208                          |
| (7) Tank Painting Expense (f)                                   | 14,936                          | 14,936                          | 14,936                          | 14,936                          |
| (8) Total Other Reconciling Items (6) + (7)                     | 34,136                          | 34,136                          | 34,136                          | 34,136                          |
| (9) Total Reconciling Items (2) + (5) + (8)                     | (60,483)                        | (60,483)                        | (59,413)                        | (59,413)                        |
| (10) Federal Taxable Income (1) + (9)                           | (136,838)                       | 235,091                         | (153,610)                       | 204,625                         |
| <u>Federal Income Taxes:</u>                                    |                                 |                                 |                                 |                                 |
| (11) First \$895 x 15%  | (134)                           | 124                             |                                 |                                 |
| (12) Next \$444 x 25%   | (212)                           | 112                             |                                 |                                 |
| (13) Next \$444 x 34%   | (252)                           | 152                             |                                 |                                 |
| (14) Next \$4,207 x 39%   | (1,641)                         | 1,641                           |                                 |                                 |
| (15) Next \$173,004 x 34%                                       | (44,488)                        | 55,821                          |                                 |                                 |
| (16) Next \$89,500 x 35%  | 0                               | 19,632                          |                                 |                                 |
| (17) Next \$59,667 x 28%  | 0                               | 0                               |                                 |                                 |
| (18) Excess of Taxable Income Over \$328,167 x 35%              | 0                               | 0                               |                                 |                                 |
| (19) Federal Income Taxes (11) Through (18)                     | (46,525)                        | 80,492                          | (k) (53,764)                    | 71,619                          |
| <u>Deferred Income Taxes:</u>                                   |                                 |                                 |                                 |                                 |
| (20) Tax Accelerated Depreciation (d)                           | 92,334                          | 92,334                          | (j) 91,932                      | 91,932                          |
| (21) Tax Straight Line Depreciation (d)                         | 66,156                          | 66,156                          | (l) 45,781                      | 45,781                          |
| (22) Excess of Tax Accelerated over Tax S/L Deprec. (20) - (21) | 26,178                          | 26,178                          | 46,151                          | 46,151                          |
| (23) Deferred 034.00%   | 8,901                           | 8,901                           | 16,153                          | 16,153                          |
| <u>Other Deferred Taxes:</u>                                    |                                 |                                 |                                 |                                 |
| (24) Amortization of Prior Years ITC (d)                        | (1,488)                         | (1,488)                         | (1,488)                         | (1,488)                         |
| (25) Rate Case Expense (e)                                      | (6,528)                         | (6,528)                         | (k) (6,728)                     | (6,728)                         |
| (26) Tank Painting Expense (f)                                  | (5,078)                         | (5,078)                         | (k) (5,228)                     | (5,228)                         |
| (27) Total Other Deferred taxes (24) Thru (26)                  | (13,094)                        | (13,094)                        | (13,436)                        | (13,436)                        |
| (28) Total Deferred Taxes (23) + (27)                           | 14,193                          | 14,193                          | 2,717                           | 2,717                           |
| (29) Total Federal Income Taxes (19) + (28)                     | (50,718)                        | 76,299                          | (51,045)                        | 74,336                          |

- (a) Staff's Schedule C-1  
(b) Staff's Schedule B-1, \$2,179,641 x 0.0314, Weighted Cost of debt  
(c) Staff's Schedule W-1.2  
(d) Derived from Applicant's Schedule C-4 and Staff's Worksheets  
(e) Staff's Schedule C-3.7  
(f) Staff's Schedule C-3.8  
(g) Revised C-2  
(h) Adjust Interest calculation T. County (3,219 \* .0314 = 104)  
(i) Revised C-2  
(j) See Accelerated tax depreciation Exhibit C  
(k) Adjust FIT to 35 % rate for Aqua Ohio  
(l) See Tax straight line depreciation Exhibit C

AQUA OHIO inc. Masury division  
Case No 09-560-WW-AIR  
Calculation Accelerated Tax Depreciation  
Calculation of Straight line Tax Depreciation

Exhibit C

**ACCELERATED TAX DEPRECIATION  
MASURY DIVISION**

|  |                 |               |
|--|-----------------|---------------|
| Tax accelerated depreciaton                                      | TW - 1 Attached | 99,381        |
| Adjusted for date certain 6-30-2008<br>(1/2 of 2008 depreciaton) |                 | (21,589)      |
| Total tax accelerated depreciaton                                |                 | <u>77,792</u> |

**SERVICE CENTER**

|  |                 |               |
|--|-----------------|---------------|
| Tax accelerated depreciaton                                      | TW - 2 Attached | 775,803       |
| Add additional software  |                 | 168,153       |
| Adjusted for date certain 6-30-2008<br>(1/2 of 2008 depreciaton) |                 | (154,005)     |
| Total tax accelerated depreciaton                                |                 | 789,951       |
| Masury allocation percentage                                     |                 | 1.79%         |
| Masury allocation  |                 | <u>14,140</u> |

|  |                      |
|--|----------------------|
| Masury Division tax accelerated          | 77,792               |
| Masury portion of Service Center         | <u>14,140</u>        |
| <b>Total accelerated tax depreciaton</b> | <u><b>91,932</b></u> |

**Tax straight line depreciaton**

|  |               |
|--|---------------|
| Masury division  | 35,258        |
| Adjusted for date certain 6-30-2008<br>(1/2 of 2008 depreciaton) | (638)         |
| Tax straight lin depreciation Masury                             | <u>34,620</u> |

|  |               |
|--|---------------|
| Service Center   | 658,323       |
| Adjusted for date certain 6-30-2008<br>(1/2 of 2008 depreciaton) | (34,781)      |
| Tax straight lin depreciation Service Center                     | 623,542       |
| Masury allocation percentage                                     | 1.79%         |
| Masury allocation  | <u>11,161</u> |

|   |                      |
|---|----------------------|
| Masury Division tax straight line depreciaton | 34,620               |
| Masury portion of Service Center              | <u>11,161</u>        |
| <b>Total Tax straight line depreciaton</b>    | <u><b>45,781</b></u> |

TW-1

| MASURY          |                | Aqua Ohio, Inc.<br>RECAP OF BOOK / TAX DEPRECIATION<br>FOR ACCOUNT 28301<br>CURRENT YEAR 2008 |                     |            | 2/9/09<br>10:18 AM<br>WP/BT1-3-57<br>BOOK / TAX |           | 2008        |
|-----------------|----------------|---|---------------------|------------|---|-----------|-------------|
| VINTAGE<br>YEAR | PROPERTY CLASS | BOOK<br>DEPRECIATION  | TAX<br>DEPRECIATION | DIFFERENCE | TAX<br>RATE                                     | TAX       | ADJUSTMENTS |
| 2002            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 583.73  | 1,024.96            | 441.25     | 35.00%  | 154.44    |             |
| 2003            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 3,142.88  | 5,518.42            | 2,373.54   | 35.00%  | 630.74    |             |
| 2004            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 949.80  | 1,146.67            | 195.87     | 35.00%  | 68.55     |             |
| 2005            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 7,394.90  | 14,971.46           | 7,576.56   | 35.00%  | 2,651.80  |             |
| 2006            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 5,871.82  | 7,799.65            | 1,928.03   | 35.00%  | 674.81    |             |
| 2007            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 4,134.74  | 6,058.16            | 1,923.42   | 35.00%  | 673.20    |             |
| 2008            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    | 1,276.74  | 43,179.77           | 41,904.03  | 35.00%  | 14,666.41 |             |
|                 | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    |   |                     | 0.00       | 35.00%  | 0.00      |             |
| 2012            | FIVE YEAR      |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | SEVEN YEAR     |   |                     | 0.00       | 35.00%  | 0.00      |             |
|                 | TWENTY YEAR    |   |                     | 0.00       | 35.00%  | 0.00      |             |
| TOTAL           |                | 36,258.48   | 99,381.16           | 64,122.68  |   | 22,442.94 | 0.00        |
|                 |                |   |                     |            |   |           | 22,442.94   |

TW-1

| MASURY          |                | Aqua Ohio, Inc.<br>RECAP OF BOOK / TAX DEPRECIATION<br>FOR ACCOUNT 28301<br>CURRENT YEAR 2008 |                     |            | 2/9/09<br>10:18 AM<br>WP/BT1-2-57<br>BOOK / TAX |          | 2008        |
|-----------------|----------------|---|---------------------|------------|---|----------|-------------|
| VINTAGE<br>YEAR | PROPERTY CLASS | BOOK<br>DEPRECIATION  | TAX<br>DEPRECIATION | DIFFERENCE | TAX<br>RATE                                     | TAX      | ADJUSTMENTS |
| 1991            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 388.81  | 798.65              | 409.74     | 35.00%  | 142.71   |             |
| 1992            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 398.88  | 778.50              | 379.62     | 35.00%  | 132.87   |             |
| 1993            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 1,754.14  | 2,842.27            | 1,088.13   | 35.00%  | 380.85   |             |
| 1994            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 338.90  | 733.68              | 394.78     | 35.00%  | 138.87   |             |
| 1995            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 579.31  | 1,063.86            | 484.55     | 35.00%  | 168.59   |             |
| 1996            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 336.70  | 606.48              | 269.78     | 35.00%  | 94.77    |             |
| 1997            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 2,439.70  | 6,318.14            | 3,878.44   | 35.00%  | 1,357.45 |             |
| 1998            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 363.64  | 574.95              | 211.31     | 35.00%  | 74.47    |             |
| 1999            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 885.28  | 1,902.40            | 1,017.12   | 35.00%  | 356.99   |             |
| 2000            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 1,276.28  | 1,849.58            | 573.30     | 35.00%  | 200.66   |             |
| 2001            | FIVE YEAR      |   |                     | 0.00       |   | 0.00     |             |
|                 | SEVEN YEAR     |   |                     | 0.00       |   | 0.00     |             |
|                 | TWENTY YEAR    | 516.60  | 1,027.97            | 511.37     | 35.00%  | 178.98   |             |

TW-1

MASURY

Aqua Ohio, Inc.  
 RECAP OF BOOK / TAX DEPRECIATION  
 FOR ACCOUNT 28301  
 CURRENT YEAR 2008

2/9/09  
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WP/BT1-67  
 BOOK / TAX

| VINTAGE<br>YEAR | PROPERTY CLASS                              | BOOK<br>DEPRECIATION | TAX<br>DEPRECIATION | DIFFERENCE | TAX<br>RATE | TAX      | 2008        |
|-----------------|---|----------------------|---------------------|------------|-------------|----------|-------------|
|                 |   |                      |                     |            |             |          | ADJUSTMENTS |
| 1977            | BUILDINGS                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | WATER UTILITY                               |                      |                     | 0.00       |             | 0.00     |             |
| 1978            | BUILDINGS                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | WATER UTILITY                               |                      |                     | 0.00       |             | 0.00     |             |
| 1979            | BUILDINGS                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | WATER UTILITY                               |                      |                     | 0.00       |             | 0.00     |             |
| 1980            | BUILDINGS                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | WATER UTILITY                               |                      |                     | 0.00       |             | 0.00     |             |
| 1981            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | FIFTEEN YEAR                                | 813.49               |                     | (813.49)   | 35.00%      | (284.72) |             |
| 1982            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | FIFTEEN YEAR                                | 184.91               |                     | (184.91)   | 35.00%      | (57.72)  |             |
| 1983            | FIVE YEAR                                   | 142.18               |                     | (142.18)   | 35.00%      | (49.76)  |             |
|                 | FIFTEEN YEAR(TAX INCLUDES<br>OWDA)          |                      |                     | 0.00       |             | 0.00     |             |
| 1984            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | FIFTEEN YEAR(TAX INCLUDE<br>OWDA 83/84 FIN) | 85.59                |                     | (85.59)    | 35.00%      | (29.96)  |             |
| 1985            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | FIFTEEN YEAR(TAX INCLUDE<br>OWDA 83/84 FIN) | 103.12               |                     | (103.12)   | 35.00%      | (36.09)  |             |
| 1986            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | FIFTEEN YEAR(TAX INCLUDE<br>OWDA)           | 334.10               |                     | (334.10)   | 35.00%      | (116.94) |             |
| 1987            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | SEVEN YEAR                                  |                      |                     | 0.00       |             | 0.00     |             |
|                 | TWENTY YEAR (TAX INCLUDE<br>OWDA)           | 361.89               | 0.00                | (361.89)   | 35.00%      | (126.66) |             |
| 1988            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | SEVEN YEAR                                  |                      |                     | 0.00       |             | 0.00     |             |
|                 | TWENTY YEAR                                 | 130.88               | 105.91              | (24.97)    | 35.00%      | (8.74)   |             |
| 1989            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | SEVEN YEAR                                  |                      |                     | 0.00       |             | 0.00     |             |
|                 | TWENTY YEAR                                 | 211.84               | 385.13              | 173.29     | 35.00%      | 60.66    |             |
|                 | SOFTWARE (STRAIGHT LINE)                    |                      |                     | 0.00       |             | 0.00     |             |
| 1990            | FIVE YEAR                                   |                      |                     | 0.00       |             | 0.00     |             |
|                 | SEVEN YEAR                                  |                      |                     | 0.00       |             | 0.00     |             |
|                 | TWENTY YEAR                                 | 312.05               | 799.62              | 487.57     | 35.00%      | 170.65   |             |



TW-2

Aqua Ohio, Inc.  
 REGAP OF BOOK / TAX DEPRECIATION  
 FOR ACCOUNT 28301  
 CURRENT YEAR 2008

3/2/09  
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WP/BT1-3-59  
BOOK / TAX

| VINTAGE<br>YEAR | PROPERTY CLASS | BOOK<br>DEPRECIATION | TAX<br>DEPRECIATION | DIFFERENCE  | TAX<br>RATE | TAX         | 2008           |
|-----------------|----------------|----------------------|---------------------|-------------|-------------|-------------|----------------|
|                 |                |                      |                     |             |             |             | ADJUSTMENTS    |
| 2002            | FIVE YEAR      | 3,522.86             | 0.00                | (3,522.86)  | 35.00%      | (1,233.00)  |                |
|                 | SEVEN YEAR     | 761.66               | 1,121.56            | 359.90      | 35.00%      | 125.97      |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
| 2003            | FIVE YEAR      | 19,618.24            | 819.83              | (18,798.41) | 35.00%      | (6,579.44)  |                |
|                 | SEVEN YEAR     | 626.76               | 644.46              | (82.28)     | 35.00%      | (28.80)     |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
| 2004            | FIVE YEAR      | 68,992.84            | 3,793.89            | (65,199.05) | 35.00%      | (22,819.67) |                |
|                 | SEVEN YEAR     | 176.80               | 143.49              | (33.31)     | 35.00%      | (11.66)     |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
| 2005            | FIVE YEAR      | 33,710.08            | 21,699.72           | (12,010.36) | 35.00%      | (4,203.83)  |                |
|                 | SEVEN YEAR     | 210.02               | 393.41              | 183.39      | 35.00%      | 64.19       |                |
|                 | TWENTY YEAR    | 0.00                 | 2,306.81            | 2,306.81    | 35.00%      | 807.03      |                |
| 2006            | FIVE YEAR      | 135,064.22           | 209,886.98          | 74,822.76   | 35.00%      | 26,187.97   |                |
|                 | SEVEN YEAR     | 7,269.20             | 12,714.79           | 5,445.59    | 35.00%      | 1,905.96    |                |
|                 | TWENTY YEAR    | 21,772.90            | 30,536.99           | 8,764.09    | 35.00%      | 3,067.43    |                |
| 2007            | FIVE YEAR      | 261,361.44           | 339,469.70          | 78,108.26   | 35.00%      | 27,337.89   |                |
|                 | SEVEN YEAR     | (2,637.88)           | (3,476.32)          | (840.46)    | 35.00%      | (294.16)    |                |
|                 | TWENTY YEAR    | 460.94               | 726.77              | 267.83      | 35.00%      | 93.74       |                |
| 2008            | FIVE YEAR      | 67,902.51            | 135,633.51          | 67,731.00   | 35.00%      | 23,705.85   |                |
|                 | SEVEN YEAR     | 1,251.85             | 3,677.77            | 2,325.92    | 35.00%      | 814.07      |                |
|                 | TWENTY YEAR    | 408.78               | 646.30              | 237.52      | 35.00%      | 83.13       |                |
|                 | FIVE YEAR      |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | SEVEN YEAR     |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | FIVE YEAR      |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | SEVEN YEAR     |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | FIVE YEAR      |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | SEVEN YEAR     |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
| 2012            | FIVE YEAR      |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | SEVEN YEAR     |                      |                     | 0.00        | 35.00%      | 0.00        |                |
|                 | TWENTY YEAR    |                      |                     | 0.00        | 35.00%      | 0.00        |                |
| TOTAL           |                | 658,323.40           | 775,802.97          | 117,479.57  |             | 41,332.84   | 0.00 41,332.84 |

TW-2

CORPORATE OFFICE

Aqua Ohio, Inc.  
 RECAP OF BOOK / TAX DEPRECIATION  
 FOR ACCOUNT 28301  
 CURRENT YEAR 2008

WP/BT1-2-59

3/2/09  
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BOOK / TAX

| VINTAGE<br>YEAR | PROPERTY CLASS | BOOK<br>DEPRECIATION | TAX<br>DEPRECIATION | DIFFERENCE | TAX<br>RATE | TAX        | 2008        |
|-----------------|----------------|----------------------|---------------------|------------|-------------|------------|-------------|
|                 |                |                      |                     |            |             |            | ADJUSTMENTS |
| 1991            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 81.94                |                     | (81.94)    | 34.00%      | (27.86)    |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       | 34.00%      | 0.00       |             |
| 1992            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 138.22               |                     | (138.22)   | 34.00%      | (46.99)    |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1993            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 3,519.28             |                     | (3,519.28) | 34.00%      | (1,196.56) |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1994            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 403.18               |                     | (403.18)   | 34.00%      | (137.08)   |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1995            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1996            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 1,765.04             |                     | (1,765.04) | 34.00%      | (600.11)   |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1997            | FIVE YEAR      |                      |                     | 0.00       | 34.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 6,167.38             |                     | (6,167.38) | 34.00%      | (2,093.51) |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1998            | FIVE YEAR      |                      |                     | 0.00       | 35.00%      | 0.00       |             |
|                 | SEVEN YEAR     |                      |                     | 0.00       |             | 0.00       |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 1999            | FIVE YEAR      |                      |                     | 0.00       | 35.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 373.42               |                     | (373.42)   | 35.00%      | (130.70)   |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 2000            | FIVE YEAR      | 0.00                 | 0.00                | 0.00       | 35.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 493.78               | 0.00                | (493.78)   | 35.00%      | (172.82)   |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |
| 2001            | FIVE YEAR      |                      |                     | 0.00       | 35.00%      | 0.00       |             |
|                 | SEVEN YEAR     | 139.44               | 62.22               | (77.22)    | 35.00%      | (27.03)    |             |
|                 | TWENTY YEAR    |                      |                     | 0.00       |             | 0.00       |             |