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FILE

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PUCO

March 5, 2010

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

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

Dear Ms. Jenkins:

Please find enclosed Attachments 1 and 2 to the testimony of Pauline M. Ahern submitted on behalf of Aqua Ohio, Inc. These Attachments were referenced in Aqua Ohio's Objections to the Public Utilities Commission of Ohio Staff Report of Investigations in the Aqua Ohio, Inc. Masury Division Rate Case filed on February 22, 2010. For ease of reference, please supplement Aqua Ohio's Objections with these Attachments. My apologies for the inconvenience and any confusion this may have caused.

Very truly yours,

Mark S. Yurick

MSY/cls
cc: All Parties

ND: 4811-8063-0533, v. 1

Aqua Ohio, Inc. - Masury Division
Derivation of Investment Risk Adjustment Based upon
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE/AMEX/NASDAQ

Line No.		1 Market Capitalization (1) (millions)	1 Market Capitalization (1) (times larger)	2 Applicable Decile of the NYSE/AMEX/ NASDAQ (2)	3 Applicable Size Premium (3)	4 Spread from Applicable Size Premium for (4)
1.	Aqua Ohio, Inc. - Masury Division					
	a. Based Upon PUCO Staff Water Utility Group	$ 89.960		10	6.28%	
2.	PUCO Staff Water Utility Group	$ 1,735.421	19.3 x	5 - 6	1.71%	4.57%

(A) Decile	(B) Smallest Company in Decile (millions)	(C) Largest Company in Decile (millions)	(D) Midpoint (millions)	(E) Size Premium (Return in Excess of CAPM) (2)
1 - Largest	$ 14,692.016	$ 329,725.255	$ 172,208.636	-0.37%
2	5,975.836	14,691.668	10,333.75	0.74%
3	3,428.570	5,936.147	4,682.36	0.85%
4	2,386.985	3,414.634	2,900.81	1.15%
5	1,602.429	2,384.026	1,993.23	1.69%
6	1,063.333	1,600.169	1,331.75	1.73%
7	685.129	1,063.308	874.22	1.73%
8	432.175	684.790	558.48	2.49%
9	214.194	431.256	322.73	2.85%
10 - Smallest	1.007	214.111	107.56	6.28%

Source: 2010 Ibbotson Risk Premia Over Time Report - Estimates for 1926-2009

Notes:

(1) From page 2.
(2) Gleaned from Column (D) on the bottom of this page. The appropriate decile (Column (A)) corresponds to the market capitalization of the PUCO Staff Water Utility Group, which is found in Column 1.
(3) Corresponding risk premium to the decile is provided on Column (E) on the bottom of this page.
(4) Line No. 1a Column 3 – Line No. 2 Column 3. For example, the 4.57% in Column 4, Line No. 2 is derived as follows 4.57% = 6.28% - 1.71%.

Aqua Ohio, Inc. - Masury Division
Market Capitalization of Aqua Ohio, Inc. and
PUCO Staff Water Utility Group

Company	Exchange	1 Total Permanent Capital June 30, 2009 (millions)	2 Common Stock Shares Outstanding at Fiscal Year Ending 2008 (millions)	3 Book Value per Share at Fiscal Year Ending 2008 (1)	4 Total Common Equity at Fiscal Year Ending 2008 (millions)	5 Average Daily Closing Stock (2)	6 Market-to-Book Ratio (3)	7 Market Capitalization (4) (millions)
Aqua Ohio, Inc. - Masury Division		$ 102.485 (5)	NA	NA	$ 51.701 (5)	NA		
Based Upon PUCO Staff Water Utility Group							174.0 % (6)	$ 89.960 (7)
PUCO Staff Water Utility Group								
American Water Works Company, Inc.	NYSE	$ 12,968.949	159.967	$ 25.643	$ 4,102.001	$ 19.3960	75.6 %	3,102.720
American States Water Company	NYSE	660.969	17.301	17.947	310.503	34.0183	189.5	588.551
California Water Service Group	NYSE	791.920	20.723	19.445	402.949	38.8338	199.7	804.753
Aqua America, Inc.	NASDAQ	2,333.126	136.053	7.780	1,058.446	17.9758	231.1	2,445.662
Average		$ 4,188.741	83.511	$ 17.704	$ 1,468.475	27.5560	174.0 %	$ 1,735.421

NA = Not Available

Notes:
(1) Column 3 / Column 1.
(2) From Schedule D-1.4, Page 7 of the Staff Report.
(3) Column 4 / Column 2.
(4) Column 5 * Column 3.
(5) From Schedule D-1 of the Staff Report.
(6) The market-to-book ratio of Aqua Ohio, Inc. is assumed to be equal to the average market-to-book ratio of the PUCO Staff Water Utility Group.
(7) Aqua Ohio, Inc.'s common stock, if traded, would trade at a market-to-book ratio equal to the average market-to-book ratio of the PUCO Staff Water Utility Group, 174.0%, and Aqua Ohio, Inc.'s market capitalization would therefore have been $89.960 million. ($89.960 = $51.701 * 174.0%).

Source of Information: 2008 Annual Forms 10K
Quarterly Forms 10Q - 2nd quarter 2009.
yahoo.finance.com

Aqua Ohio, Inc. - Masury Division
Indicated Common Equity Cost Rate Through Use of the Capital Asset Pricing Model

	1	2	3
	Value Line Adjusted Beta	Company-Specific Risk Premium Based on Market Premium of 7.72% (1)	CAPM Result Including Risk-Free Rate of 4.85% (2)
PUCO Staff Water Utility Group			
Traditional Capital Asset Pricing Model (3)	0.7333	5.66 %	10.51 %
Empirical Capital Asset Pricing Model (4)	0.7333	6.18 %	11.03 %
Average			10.77 %

See page 2 for notes.

Aqua Ohio, Inc. – Masury Division
Development of the Market-Required Rate of Return on Common Equity Using
the Capital Asset Pricing Model for
PUCO Staff Water Utility Group
Adjusted to Reflect a Forecasted Risk-Free Rate and Market Return

Notes:

(1) The equity risk premium is based on the Value Line forecasted equity risk premium and the Ibbotson historical equity risk premium. In the Value Line forecasted equity risk premium was calculated using the three previous month-end (October 2009 – December 2009), as well as a then recently available (December 25, 2009), Value Line Summary & Index. A forecasted 3-5 year total annual market return of 13.68% can be derived by averaging the 3-month and spot forecasted total 3-5 year total appreciation, converting it into an annual market appreciation and adding the Value Line average forecasted annual dividend yield.

The 3-5 year average total market appreciation of 55% produces a four-year average annual return of 11.58% ($(1.55^{.25}) - 1$). When the average annual forecasted dividend yield of 2.10% is added, a total average market return of 13.68% (2.10% + 11.58%) is derived. The 3-month and spot forecasted total market return of 13.68% minus the forecasted risk-free rate of 4.85% (developed in Note 2) is 8.83% (13.68% - 4.85%).

The Morningstar, Inc. (Ibbotson Associates) calculated market premium of 6.60% for the period 1926-2008 results from a total market return of 11.80% less the average income return on long-term U.S. Government Securities of 5.20% (11.80% - 5.20% = 6.60%).

This is then averaged with the 8.83% Value Line market premium resulting in a 7.72% market premium. The 7.72% market premium is then multiplied by the PUCO Staff average water utility beta on of page 1.

(2) The average forecast based upon six quarterly estimates of 30-year Treasury Note yields per the consensus of nearly 50 economists reported in the Blue Chip Financial Forecasts dated January 1, 2010 (see page 3). The estimates are detailed below:

	30-Year Treasury Note Yield
First Quarter 2010	4.50
Second Quarter 2010	4.60
Third Quarter 2010	4.80
Fourth Quarter 2010	4.90
First Quarter 2011	5.10
Second Quarter 2011	5.20
Average	4.85%

(3) The traditional Capital Asset Pricing Model (CAPM) is applied using the following formula:

$R_S = R_F + \beta\ (R_M - R_F)$

Where R_S = Return rate of common stock
R_F = Risk Free Rate
β = Value Line Adjusted Beta
R_M = Return on the market as a whole

(4) From Schedule D-1.3, page 8 of the Staff Report.

(5) The empirical CAPM is applied using the following formula:

$R_S = R_F + .25\ (R_M - R_F) + .75\ \beta\ (R_M - R_F)$

Where R_S = Return rate of common stock
R_F = Risk-Free Rate
β = Value Line Adjusted Beta
R_M = Return on the market as a whole

Source of Information: Value Line Summary & Index
Blue Chip Financial Forecasts, January 1, 2010
2010 Ibbotson – Risk Premia Over Time Report – Estimates for 1926-2009, Morningstar, Inc., 2010.

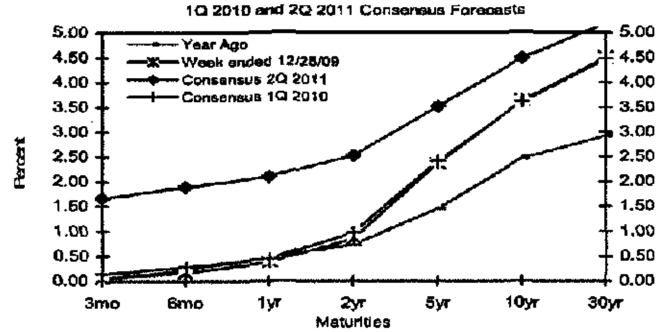
Consensus Forecasts Of U.S. Interest Rates And Key Assumptions[1]

	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week End				Average For Month			*Latest Q**	1Q	2Q	3Q	4Q	1Q	2Q
Interest Rates	Dec.25	Dec.18	Dec.11	Dec.4	Nov.	Oct.	Sep.	*4Q 2009*	2010	2010	2010	2010	2011	2011
Federal Funds Rate	0.12	0.12	0.12	0.12	0.12	0.12	0.15	*0.12*	0.2	0.2	0.4	0.8	1.3	1.6
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	*3.25*	3.2	3.3	3.5	3.9	4.3	4.7
LIBOR, 3-mo.	0.25	0.25	0.26	0.26	0.27	0.28	0.30	*0.27*	0.4	0.5	0.7	1.1	1.5	1.9
Commercial Paper, 1-mo.	0.12	0.13	0.14	0.13	0.13	0.12	0.14	*0.13*	0.2	0.3	0.6	1.0	1.5	1.8
Treasury bill, 3-mo.	0.06	0.04	0.03	0.06	0.05	0.07	0.12	*0.06*	0.1	0.3	0.5	0.9	1.3	1.7
Treasury bill, 6-mo.	0.17	0.16	0.15	0.16	0.15	0.16	0.21	*0.16*	0.3	0.4	0.7	1.1	1.6	1.9
Treasury bill, 1 yr.	0.38	0.37	0.32	0.29	0.31	0.37	0.40	*0.34*	0.4	0.6	1.0	1.4	1.8	2.1
Treasury note, 2 yr.	0.86	0.84	0.78	0.73	0.80	0.95	0.96	*0.85*	1.0	1.2	1.5	1.9	2.3	2.5
Treasury note, 5 yr.	2.37	2.31	2.18	2.10	2.23	2.33	2.37	*2.27*	2.4	2.6	2.9	3.1	3.4	3.5
Treasury note, 10 yr.	3.63	3.56	3.47	3.34	3.40	3.39	3.40	*3.43*	3.6	3.8	4.0	4.2	4.3	4.5
Treasury note, 30 yr.	4.51	4.48	4.44	4.29	4.31	4.19	4.19	*4.31*	4.5	4.6	4.8	4.9	5.1	5.2
Corporate Aaa bond	5.25	5.26	5.25	5.11	5.19	5.15	5.13	*5.19*	5.3	5.4	5.5	5.7	5.8	5.9
Corporate Baa bond	6.33	6.33	6.37	6.29	6.32	6.29	6.31	*6.31*	6.5	6.6	6.7	6.8	6.9	7.0
State & Local bonds	4.17	4.18	4.19	4.24	4.37	4.20	4.24	*4.26*	4.5	4.6	4.7	4.8	4.9	5.1
Home mortgage rate	4.98	4.94	4.81	4.71	4.88	4.95	5.06	*4.90*	5.1	5.3	5.5	5.7	5.8	6.0
	History								Consensus Forecasts-Quarterly					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	*4Q**	1Q	2Q	3Q	4Q	1Q	2Q
Key Assumptions	2008	2008	2008	2008	2009	2009	2009	*2009*	2010	2010	2010	2010	2011	2011
Major Currency Index	72.0	70.9	73.5	81.3	82.7	79.4	75.4	*73.4*	74.1	73.9	74.1	74.3	74.9	75.1
Real GDP	-0.7	1.5	-2.7	-5.4	-6.4	-0.7	2.2	*3.5*	2.9	2.9	3.0	3.0	3.0	3.0
GDP Price Index	1.9	1.8	4.0	0.1	1.9	0.0	0.4	*1.5*	1.5	1.4	1.5	1.6	1.8	1.8
Consumer Price Index	4.5	4.5	6.2	-8.3	-2.4	1.3	3.6	*2.9*	1.8	1.6	2.0	1.9	2.0	2.1

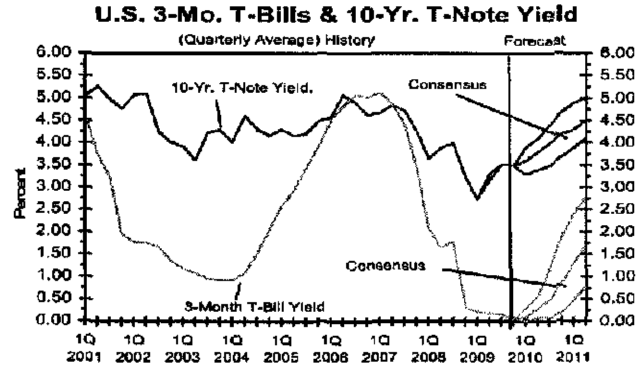
Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are the same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the Fed' Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). **Interest rate data for 4Q 2009 based on historical data through the week ended December 25th. *Data for 4Q 2009 Major Currency Index also is based on data through week ended December 25th. Figures for 4Q 2009 Real GDP, GDP Chained Price Index and Consumer Price Index are consensus forecasts based on a special question asked of the panelists this month* *(see page 14)*

U.S. Treasury Yield Curve

Week ended December 25, 2009 and Year Ago vs. 1Q 2010 and 2Q 2011 Consensus Forecasts

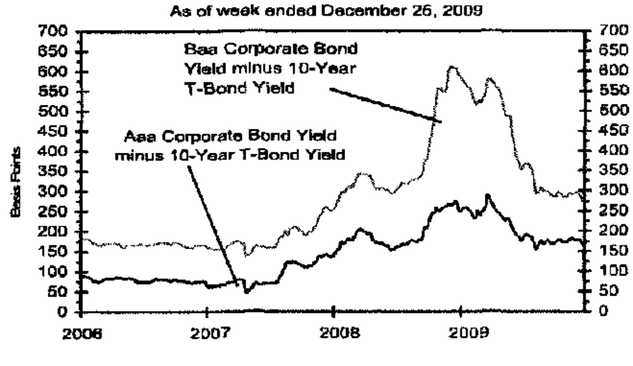


U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield



Corporate Bond Spreads

As of week ended December 25, 2009



U.S. Treasury Yield Curve

As of week ended December 25, 2009