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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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In the Matter of the Application of Aqua)
Ohio, Inc. For Authority to Increase Its) Case No. 09-1044-WW-AIR
Rates and Charges in Its Lake Erie Division)

**AQUA OHIO INC.'S SUMMARY OF MAJOR ISSUES
IN THE LAKE ERIE DIVISION RATE CASE**

NOW COMES, Aqua Ohio, Inc. ("Aqua Ohio" or "Applicant") and respectfully sets forth the following brief summary of major issues:

Major Issue Number 1: Rate on Equity.

Staff recommends a Return on Equity ranging from 8.89% to 9.9%. Aqua Ohio asserts that Staff's recommendation is far too low to permit the Company to earn a reasonable return under the circumstances.

Major Issue Number 2: Rate Base.

The Staff Report recommends that legal fees associated with Auburn Lakes system acquisition should have been treated as an expense in the year of occurrence rather than a capitalized cost. According to NARUC, these costs are properly placed in account number 301 and capitalized.

The Staff excluded CIS modification and enhancement costs from account 303 associated with project number 23090012962. These are reasonable and necessary expenses and are properly allowed in a rate base.

The Staff Report also excluded the "purification land" adjacent to the Mentor Water Treatment Facility. Since the property is being utilized in essential Company operations for the benefit of ratepayers, it is properly allowed in rate base.

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Major Issue Number 3: “Availability for Use” Charges.

The Staff recommends that the Customer Charge “Availability For Use” for the Seneca area be retained until Aqua Ohio provides additional information to justify the deletion of the charge. Aqua Ohio respectfully maintains that the elimination of the AFU Charge is warranted under the circumstances without the need for additional information or further analysis.

Major Issue Number 4: Labor Costs.

The Staff Report excludes incentive compensation, stock options and dividend equivalents. For several reasons noted in the Objections to the Staff Report, Aqua Ohio asserts that the incentive compensation, stock options and dividend equivalents are for the benefit of ratepayers and should be allowed in this rate case.

The Staff Report notes that Staff’s annualized labor expense reflects actual employee levels and wage rates at the end of the test year. This adjustment removes from the calculation of Wage Adjustment an Engineer’s position, which was vacant during the test year. This position is necessary for Aqua Ohio’s efficient operation.

Major Issue Number 5: Pension Expense.

Staff recommends the annual pension expense that is incremental to the amount currently included in base rates be deferred. The Company agrees with the basic concept of a deferral, but respectfully suggests that an adjustment that reduces pension expense to a low annual level may create an unacceptably large regulatory asset.

Major Issue Number 6: Employee Health Insurance Expense.

The Staff Report notes that Aqua Ohio annualized hospitalization expense using estimated employee levels, percent charged to the Lake Erie Division and rates effective January 1, 2010. Staff annualized hospitalization expense using rates effective January 1, 2009. Aqua Ohio submits

that the correct adjustment should utilize actual employment enrollment numbers in the new plans and actual January 1, 2010 plan rates.

Major Issue Number 7: Uncollectible Expense.

The Staff Report adjustment utilized a ratio based on a two-year average of net write-offs to billed revenues. The Company submits that a calculation based upon the twelve (12) month average is the correct calculation.

Major Issue Number 8: Infrastructure Leakage Index.

The Staff recommends that the Company be required to furnish both the Infrastructure Leakage Index ("ILI") data and the Unaccounted for Water ratio data required by the current Rules. The Commission should not require the Company to submit both calculations as the data are largely redundant.

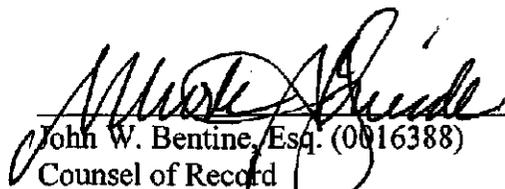
Major Issue Number 9: Rate Case Expense.

The Staff Report notes that Aqua Ohio's rate case expense estimate is reasonable, and approves a three year amortization period. Aqua Ohio requests that the amortization period for rate case expense be shortened to two and a half years to reflect the historical frequency of rate case filings and the probable necessity and timing of future rate proceedings.

Major Issue Number 10: Federal Income Tax Rate.

The Staff Report calculates the Federal Income Tax rate for the Lake Erie Division as though the Lake Erie Division were a stand alone company, instead of part of a larger corporate entity. But, the Lake Erie Division is a subsidiary of a large water company. Since the Lake Erie Division is part of a much larger entity, the consolidated Federal Income Tax rate should be 35%.

Respectfully submitted,



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing *Aqua Ohio Inc.'s Summary of Major Issues in the Lake Erie Division Rate Case* has been served upon the following persons, via regular U.S. mail, postage prepaid, this 21st day of June, 2010.

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