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FILE

January 14, 2011

Via Hand-Delivery

Public Utilities Commission of Ohio

Docketing Division

180 East Broad Street, 11th Floor

Columbus, OH 43215-3793

Re: Case No. 10-2771-WW-SIC

Docketing Division:

Please accept the attached comments submitted on behalf of the Staff of the Public Utilities Commission of Ohio. If there are any questions, please contact me at the number below.

Respectfully submitted,


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WLW/klk

Enc.

cc: Jodi Bair, Director, Utilities Dept.
Ross Willis, Utilities Dept., Accounting & Electricity
Mary Sutton, Utilities Dept., Accounting & Electricity

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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua	:	
Ohio, Inc. for Authority to Assess and	:	Case No. 10-2771-WW-SIC
Collect a System Improvement Charge in	:	
the Lake Erie Division.	:	

COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO

January 14, 2011

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BACKGROUND

Effective January 6, 2004, Section 4909.172, Revised Code, created an infrastructure improvement surcharge mechanism for water and wastewater companies to recover specific costs associated with certain distribution plant improvements. The Commission designed a set of guidelines and schedules to be followed by companies filing applications to recover these types of costs in Case No. 03-2266-WS-SIC, *In the Matter of the Information required for System Infrastructure Improvement Surcharge* (Revised guidelines, Information Requirement for Infrastructure Improvement Surcharge) (December 19, 2003).

On November 22, 2010 Aqua Ohio, Inc. filed an application proposing to collect a system improvement surcharge in its Lake Erie Division pursuant to the Commission's guidelines. Aqua Ohio, Inc. (Applicant or Company) is proposing to add a monthly surcharge of \$1.00 per month for the average residential customer using 5,300 gallons of water per month. This monthly surcharge is to recover costs incurred related to

replacement of certain infrastructure improvements made since Applicant's last system improvement surcharge application, Case No. 08-1239-WW-SIC and last rate case, Case No. 09-1044-WW-AIR.

On November 23, 2010, the Attorney Examiner issued an Entry inviting the filing of comments by no later than January 14, 2011.

OPERATING INCOME AND RATE BASE

Scope of Investigation

The scope of the Staff's investigation was designed to determine if the Applicant's filed exhibits, schedules and other documents comply with the Public Utilities Commission of Ohio (Commission) guidelines and are reasonable for ratemaking purposes, and if the financial records supporting this data are reasonable and reliable. The Staff interviewed the Applicant's key management personnel and reviewed internal and published financial reports. The original cost of property was tested for reasonableness through an examination of the Applicant's continuing property records. In addition, the existence and the used and useful nature of the assets were verified through physical inspections. Other independent analyses were performed by the Staff as considered necessary under the circumstances.

The limited purpose of the Staff's investigation was to develop financial data for ratemaking purposes and not to provide a basis for expressing an opinion on the financial statements of the Applicant as a whole.

Staff Findings

Infrastructure Plant and Depreciation

The Applicant is proposing to recover distribution system infrastructure improvements for the period between April 1, 2009 and October 31, 2010, in the amount of \$2,485,946 from three accounts as shown below:

Account 343 (Mains)	\$ 1,870,627
Account 345 (Service Replacements)	403,360
Account 348 (Hydrants)	<u>211,959</u>
Total	\$ 2,485,946

The Staff selected several projects from each of the three accounts for evaluation. The Staff examined twenty-three projects totaling \$1,921,831, or approximately 77% of all plant additions requested in this case. The Staff examined supporting documentation including task orders, continuing property records (CPR's), and selected invoices associated with accounts 343, 345, and 348.

The Staff determined that all projects requested in the November 22, 2010, application consisted of mains and valves, service lines, and hydrants installed as part of replacement projects for existing facilities in accordance with R.C. 4909.172. Because the projects replace aging distribution related facilities, Staff anticipates that they should help ensure the service reliability of Aqua Ohio's systems. Staff conducted a physical verification of the projects where possible. All projects are complete and used and useful in rendering public utility service to its customers. The infrastructure plant costs are not already reflected in the affected schedules filed by the company under R.C. 4905.31.

The Staff reviewed and analyzed the Applicant's Schedule 4 Provision for Depreciation, Schedule 5 Annualized Depreciation Associated with Additions, Schedule 5a Annualized Addition in Property Taxes for Additions, Schedule 6 Annualized Reduction in Depreciation for Retirements and Schedule 6a Annualized Reduction in Property Taxes for Retirements. The Staff verified that the Applicant is using the correct depreciation accrual rates prescribed in the prior rate case, Case No. 09-1044-WW-AIR and that the calculations are correct. The Staff also verified that the Applicant is using the proper State of Ohio, Department of Taxation taxable valuation percentage rate and the proper tax rate prescribed in Case No. 09-1044-WW-AIR, and that the property tax calculations are correct.

The Staff finds the Applicant's infrastructure plant costs and corresponding depreciation are accurate and reasonable for purposes of establishing a System Improvement Surcharge. The proposed surcharge will recover only those costs specifically related to the Applicant's infrastructure improvements and do not provide any additional revenue to the company.

RATE OF RETURN

The date certain in this proceeding is not later than three years from the date that the company's existing rates and tariffs went into effect. Therefore, the pre-tax rate of return is based on information contained in the Applicant's rate filing from December 2009, Case No. 09-1044-WW-AIR, and the rate of return on equity utilized in the stipulation attached to the Commission Order dated September 1, 2010.

Staff finds that the Applicant's pre-tax rate of return is correct and consistent with the Commission's guidelines adopted in Case No. 03-2266-WW-SIC. The proposed surcharge will provide a fair and reasonable rate of return on the Applicant's November 22, 2010, valuation of relevant infrastructure plant.

RATES AND TARIFFS

Revenue Distribution

R.C. 4909.172 states that the surcharge chargeable to each affected customer class of the company shall not exceed three percent of the rates and charges applicable to the class and in effect on the date the application was filed and, as to the allowed percentage increase, shall be uniform for each such class.

The Applicant filed a tariff with a proposed System Improvement Charge of 3.0000%. The proposed System Improvement Charge surcharge would apply to all bills issued after the approval of the tariff and would be in addition to the charges provided for in the tariff for all metered and private fire service in the Aqua Ohio Lake Erie Division. For the customers in the Norlick Place and Lake Seneca Subdivisions, the surcharge will be in addition to all flat rate, unmetered charges.

On December 15, 2010, Applicant filed a revised Schedule 10. Schedule 10 was revised to exclude Auburn Lakes revenue, as Auburn Lakes is served under contract rates.

Staff finds that the proposed surcharge does not exceed three percent and is distributed uniformly to all classes with the appropriate exclusion of Auburn Lakes.

R.C. 4909.172 also states that the Commission shall not authorize a company to have more than three surcharges in effect at any time. The Applicant has no existing System Improvement Charge Surcharges in effect in the Lake Erie Division.

Staff finds that the proposed surcharge does not exceed the three surcharge maximum and should be approved.

Tariff Filings

The proposed surcharge is listed in the tariffs as follows:

Section 4-1, Sheet No. 2 and Section 4-4, Sheet No. 2 (former Lake Erie East) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all metered and private fire rates, a surcharge of 3.00% will apply to all bills issued after XXXXXX XX, 2011.

Section 4-2, Sheet No. 1 (former Norlick Place Water) and Section 4-3, Sheet No. 1 (former Seneca Utilities) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all rates and charges for unmetered service, a surcharge of 3.00% will apply to all bills issued after XXXXXX XX, 2011.

Staff finds the proposed layout for the above mentioned tariff pages to be reasonable and should be approved.

While Applicant revised Schedule 10 to show that Auburn Lakes had been removed from the proposed revenue distribution, Applicant did not seek to withdraw the proposed tariff sheet or customer notice from the filing.

Staff finds that Auburn Lakes Condominium Association, Woods at Auburn Lakes and Auburn Crossing are under contract with Aqua Ohio and therefore the System Improvement Charge cannot be applied. Staff recommends that the proposed tariff page not be approved.

On December 20, 2010, the Applicant filed a revised Subject Index. The Effective Date column is a historical, running date column. Previous effective dates are all retained and new effective dates are added. Applicant revised the Subject Index to reflect previous effective dates and remove the reference to the Auburn Lake tariff page. Staff finds the revised Subject Index to be reasonable and recommends approval.

Customer Notice

Staff has reviewed the Applicant's proposed customer notices and recommends that the customer notices be approved with the exception of the notice to Auburn Lakes Condominium Development. As stated above Auburn Lakes Condominium Association, Woods at Auburn Lakes and Auburn Crossing are under contract with Aqua Ohio and therefore the System Improvement Charge cannot be applied and the customer notice should not be approved.

STAFF RECOMMENDATION

After a thorough review of the Company's application, Staff recommends approval of the proposed surcharge by the Commission.