

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of :
Water and Sewer LLC for an Increase :
in its Rates and Charges for Sewage :
Disposal Service. :

Case No. 11-4509-ST-AIR

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DIRECT TESTIMONY
OF
KENNETH N. ROSSELET, JR.
ON BEHALF OF
WATER AND SEWER LLC

March 23, 2012

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**DIRECT TESTIMONY
OF
KENNETH N. ROSSELET, JR.
ON BEHALF OF
WATER AND SEWER LLC**

1 **Q. Please state your name and business address.**

2 A. My name is Kenneth N. Rosselet, Jr. My business address is 7390 Mapleleaf
3 Boulevard, Columbus, Ohio 43235.

5 **Q. By whom are you employed?**

6 A. I am self-employed as a consultant on utility regulatory matters. The primary
7 focus of my practice is ratemaking and regulatory accounting issues.

9 **Q. Please briefly summarize your educational background and professional
10 experience.**

11 A. I received my formal education at The Ohio State University, Franklin University,
12 and LaSalle Extension University. The focus of my education was in the area of
13 accounting. My work experience in public utility regulation and accounting began
14 with my employment at the Public Utilities Commission of Ohio ("Commission") in

1 1970. During my employment with the Commission, I advanced from an entry-
2 level position of utility examiner in the Accounts and Valuation Division of the
3 Utilities Department to a supervisory position as a team leader in the division. As
4 a team leader, my primary duties included the supervision of rate audits,
5 preparation of the Accounts and Valuation section of the Staff Reports of
6 Investigation issued in connection with utility rate increase applications filed with
7 the Commission, and presentation of testimony in support of the Accounts and
8 Valuation portion of those Staff Reports. During my employment with the
9 Commission, I participated directly or indirectly in approximately seventy-five rate
10 case audits.

11
12 I was employed by the Ohio Consumers' Counsel ("OCC") from June 1977
13 through June 2000, where I served in various supervisory positions. My last
14 position with OCC was as a Principal Regulatory Analyst. My responsibilities
15 with OCC included the review and analysis of utility rate applications and other
16 filings before the Commission, preparing technical evaluations and
17 recommendations on utility-related matters, and preparing and presenting
18 written reports and testimony before the Commission and other local, state, and
19 federal governmental bodies. I also represented OCC on various panels and
20 forums.

1 I retired from OCC in June 2000. I began providing utility-related consulting
2 services in January 2001. As a consultant, I have provided services to both
3 utilities and utility customers.

4
5 **Q. Have you been a member of any organization whose focus was utility**
6 **regulation?**

7 A. Yes. I served from 1985 to 1995 as the representative of the National Association
8 of State Utility Consumer Advocates to the National Association of Regulatory
9 Utility Commission's Staff Subcommittee on Accounts. I also served on that
10 subcommittee's Tax Committee.

11
12 **Q. Have you previously submitted testimony in proceedings before this**
13 **Commission?**

14 A. Yes. In my forty-two years of regulatory experience with the Commission, OCC,
15 and in my private consulting practice, I have provided testimony in forty-three
16 cases before the Commission and in one case before the Federal Energy
17 Regulatory Commission. Five of the cases in which I presented testimony were
18 during my employment with the PUCO, thirty-five of the cases were during my
19 employment with the OCC, and three were as a private consultant. These cases
20 are listed in Attachment A to my testimony.

21
22 **Q. On whose behalf are you testifying in this proceeding?**

1 A. I am testifying on behalf of Water & Sewer LLC ("Water and Sewer" or the
2 "Company"), the applicant in this case.
3

4 **Q. What is the purpose of your testimony in this proceeding?**

5 A. The purpose of my testimony is to support certain of Water and Sewer's
6 objections to the Staff Report of Investigation ("Staff Report"), which was filed in
7 this matter on February 22, 2012.
8

9 **Q. Did you have a role in developing the rates and charges proposed in the**
10 **application in this case?**

11 A. Yes. Although the application was filed as an abbreviated filing under the
12 Commission's Standard Filing Requirements – which relieves very small utilities
13 like Water and Sewer from submitting their own revenue requirements analysis –
14 it was still necessary to develop the rates to be proposed in the application.
15 Thus, I was asked by Water and Sewer to prepare an analysis to determine the
16 level of rate relief required and the rates that would generate the required
17 revenue.
18

19 **Q. Please describe the analysis you performed to determine the rates that**
20 **were ultimately proposed in the application.**

21 A. I relied on the information contained in Water and Sewer's annual report to the
22 Commission for 2010, which is the test year in this proceeding, as well as certain
23 internal accounting records of the Company. I then substituted this test-year

1 data for the 2007 test-year data used in developing the stipulated revenue
2 requirement analysis approved by the Commission in the Company's last rate
3 case, Case No. 08-227-WS-AIR, to come up with a current revenue requirement.
4 Thus, my analysis reflected the various ratemaking adjustments approved the
5 Commission in the prior case.
6

7 **Q. How do the results of your analysis compare to revenue requirement**
8 **analysis presented in the Staff Report in this case?**

9 A. Although Staff performed some fine-tuning in certain areas, the results were
10 remarkably similar, except for the Staff's treatment of two expense issues that I
11 discuss below. Apart from the impact of the Staff's treatment of these two
12 expense issues on the allowance for working capital, our rate base
13 determinations were essentially identical, and the 10 percent rate of return I
14 assumed for purposes of my calculations represents the midpoint of the rate of
15 return range recommended by the Staff in this case.
16

17 **Q. In its first objection to the Staff Report, the Company takes issue with the**
18 **revenue requirement recommended by staff (Water and Sewer Objection**
19 **No. 1). Please explain the basis for this objection.**

20 A. Although Water and Sewer generally supports the staff's revenue requirement
21 analysis, the staff's disallowance of the expenses referred to above results in the
22 Staff's proposed revenue requirement being understated. Thus, this general
23 objection is tied to the two specific expense objections I discuss below.

1 **Q. The Company's second objection to the Staff Report goes to the Staff's**
2 **proposed allowance for working capital (Water and Sewer Objection No. 2).**
3 **Is this objection also tied to the Staff's treatment of the two expense issues**
4 **to which you have referred?**

5 **A. Yes. The Staff's disallowance of these expenses reduces the O&M expense**
6 **component of the cash working formula used by the Staff. The Company has no**
7 **objection to the use of formula approach for developing the working capital**
8 **allowance, but if the Commission agrees with the Company's position on one or**
9 **both of these expense issues, the working capital allowance must be adjusted**
10 **accordingly.**

11
12 **Q. Water and Sewer has objected to Staff's determination of adjusted test-year**
13 **O&M expense set forth in Schedule C-2 of the Staff Report based on the**
14 **Staff's failure to include the previously authorized annual recovery**
15 **associated with certain expense amortizations approved by the**
16 **Commission in Case Nos. 03-318-WS-AIR and 08-227-WS-AIR that have not**
17 **yet been completed (Water and Sewer Objection No 3). Please explain the**
18 **basis for this objection.**

19 **A. This objection relates to the Staff's failure to recognize the treatment accorded**
20 **certain expenses by the Commission in the Company's two prior rate cases, and,**
21 **more specifically, to the Staff's failure to include an allowance for the continuing**
22 **annual recovery associated with expense amortizations approved by the**
23 **Commission in those proceedings.**

1 **Q. Under what circumstances is it appropriate to amortize an expense actually**
2 **incurred in the test year over a period of years for ratemaking purposes?**

3 **A. The starting point in determining the appropriate annual allowance for an**
4 **expense category for ratemaking purposes is the actual cost incurred in the test-**
5 **year. However, in some instances, the actual cost, although representing a**
6 **necessary, unavoidable expense that the utility is entitled to recover, may be**
7 **considered to be extraordinary in nature. In such instances, the Commission**
8 **typically amortizes the expense over some appropriate period. This insures that**
9 **the utility will ultimately be made whole by recovering the cost in annual**
10 **increments, but guards against the over-recovery that would occur if the entire**
11 **test-year cost were built into the new rates as an annual allowance and those**
12 **rates remain in effect for more than a year.**

13
14 **Q. What test-year expenses were amortized by the Commission for**
15 **ratemaking purposes in Case No. 03-318-WS-AIR?**

16 **A. The Commission authorized a ten-year amortization of \$7,122 in sludge removal**
17 **expense related to the clean-up effort required due to the poor maintenance**
18 **practices of the sewer plant's prior owner, and a ten-year amortization of the**
19 **\$3,700 cost of the sludge management plan mandated by the Ohio EPA, thereby**
20 **providing for annual recoveries for these items of \$712 and \$370, respectively.**
21 **The rates approved in that proceeding did not take effective until 2005, which**
22 **means that these expenses have not yet been fully recovered.**

1 **Q. Did the stipulation approved by the Commission in Case No. 08-227-WS-**
2 **AIR provide for the continuing recovery of these annual amounts?**

3 A. Yes. Although Staff overlooked these amounts in preparing Staff Report in that
4 case, Staff agreed with Company's objection that these amounts should have
5 been included in the cost of service, and the stipulation so provided.
6

7 **Q. What test-year expenses were amortized by the Commission for**
8 **ratemaking purposes in Case No. 08-227-WS-AIR?**

9 A. In addition to continuing the amortization of the expenses discussed above, the
10 Commission-approved stipulation in Case No. 08-227-WS-AIR also provided for
11 the ten-year amortization of the \$25,000 expense associated with emergency
12 septage hauling during certain months of the 2007 test year in that case and the
13 four-year amortization of \$14,920 in road repair expense. Thus, the rates
14 approved in Case No. 08-227 reflected authorized annual recovery amounts for
15 these items of \$2,500 and \$3,370, respectively. The rates approved in Case No.
16 08-227-WS-AIR did not take effect until mid-2009, so, as with amortizations
17 authorized in Case No. 03-318-WS-AIR, these expenses have not yet been fully
18 recovered. I would also note that the emergency septage hauling expense was
19 actually far greater than \$25,000, but that the Company agreed to cap the
20 expense as a part of the stipulation. Thus, not only would the premature
21 termination of the amortization of this expense item be inconsistent with the
22 purpose of amortization adjustments, but, in this instance, it would be particularly
23 unfair.

1 **Q. Do you know why Staff failed to provide for the continued amortization of**
2 **these four items in its determination of allowable expenses for purposes of**
3 **this case?**

4 A. No. However, I assume that, as in the last case, this was just an oversight on
5 Staff's part. Staff determined its recommended expense allowance based on its
6 audit of the company's test-year invoices and accounting records. These
7 amortizations were not deferrals, but were simply ratemaking adjustments, and,
8 as such, were not memorialized on the Company's books. Thus, the Staff's audit
9 would not have picked up these amounts.

10
11 **Q. What is your recommendation with respect to these items?**

12 A. The Staff's determination of allowable adjusted test-year O&M expense is
13 understated by the sum of these previously authorized annual recovery amounts,
14 or \$7,312. The Commission should include this amount in determining the
15 allowance for expenses in this case.

16
17 **Q. In its fourth objection to the Staff Report, the Company takes issue with the**
18 **adjustment to test-year insurance expense set forth in Schedule C-3.7 of**
19 **the Staff Report (Water and Sewer Objection No. 4). Please describe the**
20 **adjustment in question.**

21 A. The Staff reduced test-year insurance expense by \$15,988. As explained at
22 page 6 of the Staff Report, this reduction was the product of two separate
23 adjustments. First, staff annualized the test-year insurance expense based on

1 the level of the insurance premiums applicable at the end of the test year.

2 Second, the Staff allocated one-half of the Company's adjusted test-year
3 pollution, umbrella, and property insurance expense to "non-regulated business
4 operations."

5 **Q. Does the Company object to the annualization adjustment?**

6 A. No. Water and Sewer agrees that the annualization adjustment is appropriate
7 and has been correctly calculated. However, the Company does object to the
8 allocation of one-half of the annualized insurance expense to another entity,
9 which, as shown in the underlying Staff workpaper, Staff Schedule WPC-3.7,
10 reduced the allowance for insurance expense by \$9,178. A copy of Staff
11 Schedule WPC-3.7 is attached to my testimony as Exhibit KNR-1.

12
13 **Q. Please explain the basis for this objection?**

14 A. Although the narrative at page 6 of the Staff Report does not identify the "non-
15 regulated business operations" to which Staff assigned one-half of the insurance
16 expense, Staff Schedule WPC-3.7 indicates that the expense was divided
17 between Water and Sewer and Richfield Furnace Run Associates ("RFRA").

18
19 **Q. What is the relationship between Water and Sewer and RFRA?**

20 Although Water and Sewer and RFRA have the same member-owners, RFRA is
21 a totally separate legal entity from Water and Sewer, has no ownership interest in
22 Water and Sewer or in any of Water and Sewer's property or business, and
23 maintains its own insurance coverage on its own property and business. The

1 insurance premiums in question were paid solely and directly by Water and
2 Sewer and were for coverage that relates solely to Water and Sewer's sewer
3 plant and sewer business. Thus, Staff's allocation of one-half of Water and
4 Sewer's insurance expense to RFRA is unreasonable and improper.

5
6 **Q. Why did Staff allocate one-half of the adjusted test-year insurance expense**
7 **to RFRA?**

8 A. Although the narrative in the Staff Report does not shed any light on this, I
9 assume that the Staff may have allocated one-half of the insurance expense to
10 RFRA based on the fact that RFRA is also identified as a named insured on the
11 insurance policies in question. If that is the case, Staff has incorrectly interpreted
12 the significance of RFRA being included as a named insured. As documented in
13 Case No. 03-318-WS-AIR, the utility facilities owned by Water and Sewer were
14 acquired from the previous owner as a part of a larger transaction that also
15 included the purchase of some 125 acres of real property adjacent to the utility
16 service area. RFRA arranged this purchase, but, at closing, Water and Sewer,
17 which was created to operate the utility facilities as a public utility, took title to the
18 utility facilities, RFRA took title to the real property, and the total purchase price
19 was allocated between the two companies. As the owner of the sewer facilities,
20 Water and Sewer would obviously be entitled to any insurance reimbursements
21 for casualty losses. However, in view of the manner in which the interests were
22 transferred, the management of W&S and RFRA foresaw the possibility that
23 RFRA could be named as a defendant in an action for damages in connection

1 with the sewer operations, notwithstanding that Water and Sewer was the owner
2 of the sewer facilities. Thus, RFRA was also identified as a named insured on
3 the Water and Sewer to provide RFRA with protection in the event it were to be
4 named in such an action.

5
6 **Q. Does the fact that RFRA is also a named insured on the Water and Sewer**
7 **insurance policies have any effect on the cost of the insurance to Water**
8 **and Sewer?**

9 A. No. Identifying RFRA as a named insured on the Water and Sewer policies has
10 no effect on the cost of the premiums paid by the Company. In other words, the
11 Company would have incurred precisely the same expense for pollution,
12 umbrella, and property insurance had RFRA not been included as a named
13 insured.

14
15 **Q. Did you take any measures to confirm your understanding that including**
16 **RFRA as a named insured had no effect on the amount of the premiums**
17 **paid by Water and Sewer?**

18 A. Yes. I asked counsel to put this question to Water and Sewer's insurance agent.
19 The email from the insurance agent attached to my testimony as Exhibit KNR-2
20 confirms my interpretation.

21
22 **Q. What is your recommendation with respect to the allowance for insurance**
23 **expense?**

1 A. For the reasons stated above, the Commission should restore the \$9,178 in
2 insurance expense excluded by the Staff. Coupling this amount with the
3 inclusion of the annual recovery amounts associated with the continuation of the
4 previously approved amortizations, means that the Company's allowable
5 expenses should be increased by \$16,490, and that the allowance for working
6 capital should be adjusted accordingly.

7
8 **Q. Are you proposing any other adjustments to the Staff's recommended**
9 **revenue requirement?**

10 A. No. However, I would like to offer a comment in support of the Company's
11 objection relating to the allowance for rate case expense (Water and Sewer
12 Objection No. 5).

13
14 **Q. Please proceed.**

15 A. The Staff included an allowance for rate case expense of \$15,000, and
16 recommended that the allowance be amortized over five years. As stated in its
17 objection, the Company recognizes that recommended allowance for rate case
18 expense presented in the Staff Report must necessarily be based on an
19 estimate. Thus, although the Staff's \$15,000 estimate is well below the rate case
20 expense incurred by the Company in connection with either of its two prior rate
21 cases, the Company has no objection to the use of this estimate as a placeholder
22 for this item. Because the actual expense Water and Sewer will ultimately incur
23 in connection with this proceeding cannot be known at this time – and will be a

1 function of whether the case is actually litigated – the Company supports the
2 Staff's customary recommendation that the Commission review the late-filed rate
3 case expense exhibit the Company will submit after the conclusion of the hearing
4 in this matter before making a final determination of the appropriate allowance for
5 rate case expense. However, in my experience, what typically happens as a
6 result of this process is that the Commission approves the updated amount if it is
7 below the original Staff estimate, but caps the allowance at the Staff Report
8 number if the updated estimate is higher. One can make the argument that this
9 is appropriate where the original estimate is prepared by the applicant utility, but,
10 because this is an abbreviated application, the \$15,000 estimate in the Staff
11 Report represents the Staff's estimate, not that of Water and Sewer. Under
12 these circumstances, I believe that the updated estimate in the late-filed exhibit
13 should control without regard to whether it is above or below the initial Staff
14 estimate. As noted in its objection, the Company does not object to the Staff's
15 proposal that the allowance for rate case expense be amortized over five years.

16
17 **Q. Do you have any comments relating to the Rates and Tariffs section of the**
18 **Staff Report?**

19 **A.** Yes. Although the proposed rates I developed for inclusion in the application
20 contained a bi-monthly customer charge, I agree with Staff that, because the
21 usage charge is a fixed, flat rate, there is no reason to continue to have a
22 separate customer charge. Thus, the Company supports the Staff's

1 recommendation that the rate schedule filed pursuant to the Commission's order
2 in this case contain a single, flat bi-monthly charge for service.

3
4 **Q. The Company has objected to the Staff's failure to recommend that the rate**
5 **increase authorized herein be implemented on a bills-rendered basis**
6 **(Water and Sewer Objection No. 8). What is the basis for this objection?**

7 **A.** With bi-monthly billing, if the rate increase is implemented on a service-rendered
8 basis, collection of the new rate could be delayed for as long as four months from
9 the date of the Commission's order. I believe that such a result would clearly be
10 unreasonable, particularly in light of the significant operating loss the Company is
11 experiencing under its current rates. The usual argument for implementing a rate
12 increase on a service-rendered basis is that customers should have an
13 opportunity to adjust their usage before being subjected to the higher rate.
14 However, because the rate approved in this proceeding will be a fixed, flat rate,
15 this argument does not apply. Thus, the Commission should order that the rate
16 increase authorized in this case should be implemented on a bills-rendered
17 basis.

18
19 **Q. Does this conclude your testimony?**

20 **A.** Yes. However, I reserve the right to file supplemental and/or rebuttal testimony.

ATTACHMENT A

KENNETH N. ROSSELET, JR.

TESTIMONIES

(Case Nos. are PUCO Case Nos. unless otherwise indicated)

CINCINNATI BELL TELEPHONE	80-476-TP-AIR 96-899-TP-ALT
CINCINNATI GAS & ELECTRIC	79-11-EL-AIR 81-1402-EL-CSS 82-1402-EL-AIR 01-1228-GA-AIR
CLEVELAND ELECTRIC ILLUMINATING	83-1342-EL-ATA
COLUMBIA GAS OF OHIO	76-704-GA-AIR 77-1428-GA-AIR 78-1008-GA-CMR 78-1118-GA-AIR 78-1161-GA-AIR 82-0852-GA-AIR 82-1002-GA-AIR 81-1070-GA-AIR 82-1129-GA-AIR 82-1151-GA-AIR 82-1152-GA-AIR 82-1174-GA-AIR 82-1175-GA-AIR
COLUMBUS SOUTHERN POWER (formerly C&SOE)	78-1439-EL-AEM 81-1508-EL-AIR 83-314-EL-AIR
DAYTON POWER & LIGHT	76-115-HT-AIR 76-823-EL-AIR 76-88-GA-AIR 78-92-EL-AIR 79-372-GA-AIR
EAST OHIO GAS	93-2006-GA-AIR 96-1019-GA-ATA

MONONGAHELA POWER COMPANY	94-1918-EL-AIR
OHIO BELL TELEPHONE COMPANY	83-300-TP-AIR 93-576-TP-CSS
OHIO EDISON COMPANY	75-131-EL-AIR
OHIO GAS COMPANY	83-505-GA-AIR
OHIO POWER COMPANY	83-98-EL-AIR
OXFORD NATURAL GAS CO.	78-1404-GA-AIR 79-292-GA-CMR 06-350-GA-CMR
COMMISSION RULE MAKING	80-90-GE-UNC
TENNESSEE GAS PIPELINE	FERC RP-91-203 FERC RP-92-132
WATER & SEWER LLC	03-318-WS-AIR
WEST OHIO GAS	80-256-GA-AIR 89-275-GA-AIR

EXHIBIT KNR-1

SCHEDULE WPC-3.7

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Insurance Expense Worksheet

(1)	Pollution Expense - Acct. 9240 (a)		
	(a) Wells Fargo Insurance	\$ 433.28	
	(b) Multiply (a) x 12 months	5,199.36	5,199.36
(2)	Property and Umbrella Insurance - Acct. 9240, 9242 (a)		
	(a) Westfield Insurance \$767.49 + \$328.93) * 12)		
	(i) Property	328.93	
	(ii) Umbrella	767.49	
		1,096.42	
	(b) Multiply (a) x 12 months	13,157.04	13,157.04
(3)	Total Insurance Expense: sum (1) + (2)		\$18,356.40
(4)	Divide Total Insurance (3) / 2		
	Portion to Water and Sewer LLC		\$ 9,178.20
	Portion to Furnace Run Associates		\$ 9,178.20
(a)	Applicant Invoices and General Ledger		

EXHIBIT KNR-2

Subj: Water and Sewer LLC ; Richfield Furnace Run Associates
Date: 3/22/2012 3:17:49 P.M. Eastern Daylight Time
From: Maureen.Mandato@wellsfargo.com
To: barthroyer@aol.com

From: Mandato, Maureen
Sent: Thursday, March 22, 2012 3:15 PM
To: 'barthroyer@aol.com'
Subject: Water and Sewer LLC ; Richfield Furnace Run Associates

Re: Insured: Water and Sewer LLC; Richfield Furnace Run Associates
Westfield Package CWP 4 935 780; 07/09/11-12

Attn: Barth E. Royer 614-228-0704

Mr. Royer, confirming our telephone conversation of this afternoon, it is accurate to say that the premiums paid by Water and Sewer LLC would be the same even if Richfield Furnace Run Associates was not a Named Insured on the above policy.

I trust this helps to clarify.

Sincerely,
Maureen
Maureen K. Mandato, AAI
Wells Fargo Insurance Services USA, Inc.
1301 E Ninth St, Ste 3800
Cleveland, OH 44114-1824
800-837-4644 X-140
216-902-5140
Fax: 216-902-5300
maureen.mandato@wellsfargo.com

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following persons by US mail, postage prepaid, this 23rd day of March 2012.



Barth E. Royer

William R. Hanna
Heather Vlasuk
WALTER & HAVERFIELD LLP
The Tower at Erieview
1301 East Ninth Street, Suite 3500
Cleveland, OH 44114-1821