

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Water)
and Sewer LLC to Increase its Rates for) Case No. 11-4509-ST-AIR
Sewer Service.)

OPINION AND ORDER

The Commission, considering the application of Water and Sewer LLC to increase rates and charges pursuant to Section 4909.18, Revised Code, the Staff Report of Investigation, other evidence of record, the applicable law, and being otherwise fully advised, hereby issues its Opinion and Order.

APPEARANCES:

Bell & Royer Co., LPA, by Barth E. Royer, 33 South Grant Avenue, Columbus, Ohio 43215, on behalf of Water and Sewer LLC.

Walter & Haverfield LLP, by William R. Hanna, The Tower at Erieview, 1301 East Ninth Street, Suite 3500, Cleveland, Ohio 44114, on behalf of the village of Richfield, Ohio.

Mike DeWine, Ohio Attorney General, by Werner L. Margard III, and Devin D. Parram, Assistant Attorneys General, 180 East Broad Street, Columbus, Ohio 43215, on behalf of the staff of the Public Utilities Commission of Ohio.

OPINION:

I. PROCEDURAL BACKGROUND

Water and Sewer LLC, the applicant in this proceeding (Water and Sewer or applicant), is an Ohio limited liability company which is engaged in the business of supplying sewage disposal services to approximately 77 customers in the Briarwood subdivision. The majority of the customers reside within the village of Richfield (Village or Richfield) with the remaining customers residing in the adjacent unincorporated territory in Richfield Township. (April 11, 2012, Tr. 25-28; May 10, 2010, Tr. 62, 63; Staff Ex. 1 at 1.) Water and Sewer is a public utility under the terms of Section 4905.02, Revised Code, and a sewage disposal company under the terms of Section 4905.03(A)(13), Revised Code, and, as such, is subject to the jurisdiction of the Commission, pursuant to Sections 4905.04, 4905.05, and 4905.06, Revised Code. The applicant's present rates and charges for sewage disposal services were established by order of the Commission in *In the Matter of the Application of Water and Sewer LLC for an Increase in Rates and Charges*, Case No. 08-227-WS-AIR (08-227), Finding and Order (May 27, 2009).

On July 27, 2011, Water and Sewer filed a notice of intent to file an application for an increase in rates. On September 23, 2011, Water and Sewer filed an abbreviated application for authority to increase its rates and charges for supplying sewage disposal services within its service area, pursuant to Section 4909.18, Revised Code, and Rule 4901-7-01, Ohio Administrative Code (O.A.C.). Water and Sewer requested that the Commission establish December 31, 2010, as the date certain, and the 12 months ending December 31, 2010, as the test period. By entry dated November 9, 2011, the Commission accepted the application for filing as of September 23, 2011, approved the requested test year and date certain, approved the requested waivers, and ordered the applicant to publish notice of the application. Richfield was granted intervention pursuant to the attorney examiner Entry of February 24, 2012.

Pursuant to Section 4909.19, Revised Code, the Commission's staff (Staff) conducted an investigation of the matters set forth in the application and attached exhibits. A written report of the Staff's investigation (Staff Report) was filed on February 22, 2012, and was served as provided by law. The applicant filed objections to the Staff Report on March 23, 2012 (Applicant Objection). Richfield filed objections to the Staff Report on March 23, 2012 (Richfield Objection).

A prehearing conference was held on April 3, 2012. Following notice, published in accordance with Section 4903.083, Revised Code, the local public hearing in this case was conducted on April 11, 2012, at the Village Council Chambers, in Richfield, Ohio. The purpose of the local hearing was to provide members of the public affected by this application the opportunity to present statements concerning the proposed rate increase.

In preparation for the evidentiary hearing, direct expert testimony was filed by Kenneth N. Rosselet, Jr., on behalf of the applicant, and by William Ross Willis, S. Nicole Crocker, and Sue Daly on behalf of the Staff. Rebuttal testimony was filed by Mr. Rosselet on behalf of the applicant. The evidentiary hearing was commenced on April 17, 2012, at the offices of the Commission. At the time of the hearing, the parties indicated a desire for additional time in order to attempt to resolve the disputed issues in this proceeding. Upon the parties being unable to informally resolve the disputed issues in this case, the evidentiary hearing was continued on May 10, 2012. In addition to those witnesses who submitted prefiled testimony, Richfield sponsored Melanie Baker and Said AbouAbdallah as fact witnesses. Post-hearing briefs were filed on June 1, 2012.

II. SUMMARY OF THE APPLICATION

Water and Sewer's rate increase application sought approval for an increase of 40.11 percent over current sewage disposal revenues (approximately an additional \$41,260), in order to generate sufficient revenues for the applicant to receive reasonable compensation

and return for the utility services it renders (Water and Sewer Application for an Increase in Rates and Charges at 2; Staff Ex. 1 at 1).

III. PUBLIC TESTIMONY

On April 11, 2012, a public hearing was held in Richfield, Ohio, for the purpose of receiving testimony from the customers of Water and Sewer. Six individuals testified at this hearing. The witnesses were either customers of the public utility or elected representatives of the customers. Additionally, letters in opposition were submitted by both the Briarwood Condominium Association and the Summit County Council.

The witnesses were unanimously opposed to the rate increase. Much of the testimony focused on the fact that the customers of Water and Sewer are being asked to incur an additional rate increase that they cannot afford, especially in light of the current state of the economy, including existing unemployment and foreclosures within the service area (April 11, 2012, Tr. 13, 20, 27, 28). Witnesses also stated that the proposed increase will adversely affect the value of their houses and the ability to sell their property (*Id.* at 13, 16).

One witness focused on the fact that operations of Water and Sewer are unique inasmuch as the company has a very small customer base, which has been repeatedly required to incur the requested increases. Focusing on the current requested increase and possible future increases, the witness opined that the situation is not sustainable. (*Id.* at 20.) Another witness noted that the facilities were actually constructed for a much larger customer base. In his opinion, it is unfair to request the small number of customers served by Water and Sewer to contribute for the full maintenance of a facility that has the potential to serve a much larger area. (*Id.* at 11, 12.) Related to this point, testimony focused on the fact that the owners of Water and Sewer currently own undeveloped land adjacent to the existing service territory which, if developed, would increase the existing customer base and potentially reduce individual customer rates (*Id.* at 11, 12, 14, 20, 22). According to testimony, this land was recently approved for residential development (*Id.* at 26).

Another witness questioned the managerial capabilities of Water and Sewer. In particular, the witness noted that this is the third significant rate increase requested since 2004. The witness opined that this pattern signifies that the owner is either not being truthful in accounting for his expenses or he is "just a bad operator." (*Id.* at 15.) The witness also questioned whether there were any accounting errors relative to the tracking of expenses for Water and Sewer in light of the fact that its owner also is a land developer and the owner of another utility operating at the same address. Specifically, the witness inquired as to whether the stated legal, insurance, and administrative expenses were solely

for Water and Sewer or whether they also covered the development company and the other utility company. (*Id.*)

According to testimony, the applicant has expressed the desire to no longer be in the sewer business. Therefore, it was requested that the Commission work with the Village and Richfield Township in order to accomplish this result within a two-year time frame. (*Id.* at 20, 21, 22, 26.)

The mayor of Richfield stated that the pending sewer increase is not a new issue but, rather, the applicant's customers have been burdened with sewer and water rate increases for a number of years. The mayor explained how the Village has been attempting to implement a long-term solution to transfer the existing Water and Sewer service to a sewer line that the Village would build, own, and maintain. Specifically, the mayor described how Richfield has already spent in excess of \$100,000 on engineering, legal fees, and Village employee time in order to pursue this issue. She speculated that the contemplated transfer of the sewer operations to the Village will also be beneficial for the proposed development of the adjacent land held by the owners of Water and Sewer. (*Id.* at 26.) The mayor also described how Richfield had previously accomplished a transfer of the provision of water service from Water and Sewer to the city of Cleveland over facilities maintained by the Village (*Id.* at 24-26).

IV. COMMISSION REVIEW AND DISCUSSION

This case comes before the Commission upon the application of Water and Sewer, pursuant to Section 4909.18, Revised Code, for authority to increase its rates and charges for sewage disposal service to jurisdictional customers. The applicant alleges that its existing base rates are insufficient to provide it reasonable compensation for the service it renders. The application seeks approval of base rate schedules which would yield \$41,260 in additional sewer revenues. Staff recommends a revenue increase in the range of \$32,198 to \$33,539, representing an increase of 31.30 percent to 32.60 percent. Additionally, Staff determined that under prevailing interest rates, a rate-of-return in the range of 9.5 percent to 10.5 percent is fair and reasonable.

Both Water and Sewer and Staff agree that, based on the record, this case pertains to the following two issues: (1) the ongoing recovery of previously authorized operations and maintenance expense amortizations and (2) the appropriateness of allocating certain insurance premium expenses to nonregulated businesses (Water and Sewer Br. at 1, 2, 7; Staff Br. at 1).

Richfield filed objections to the Staff Report in regard to the following determinations: (1) rate base, (2) operating expenses, (3) rate-of-return, and (4) revenue

requirement (Richfield Objections at 1-4). It did not present testimony in support of its objections.

OPERATING INCOME

1. The Appropriateness of the Recovery of Expense Amortizations Previously Approved by the Commission.

The applicant objects to Staff's reduction of the calculated revenue requirement based on its determination relative to the allowance for the expenses to be included in the revenue requirement (Water and Sewer Br. at 7). Specifically, in its Third Objection to the Staff Report, Water and Sewer objects to Staff's determination of adjusted test-year Operations and Maintenance expense due to Staff's failure to include the previously authorized annual recovery associated with certain expense amortizations approved by the Commission in *In the Matter of the Application of Water and Sewer LLC for an Increase in Rates and Charges*, Case No. 03-318-WS-AIR (03-318), Opinion and Order (October 6, 2004), and 08-227 (Applicant's Objection at 2).

In particular, Water and Sewer highlights that in 03-318, the Commission approved a ten-year amortization of \$7,122 in sludge removal expenses related to the cleanup required as a result of the poor maintenance practices of the sewer plant's prior owner. The applicant notes that the amortization was initially approved by the Commission in 03-318 and reaffirmed by the Commission in 08-277, resulting in an authorized annual recovery of \$712. (*Id.*)

Water and Sewer also identifies the ten-year amortization of the \$3,700 cost of the sludge management plan mandated by the Ohio Environmental Protection Agency, which was initially approved by the Commission in 03-318 and reaffirmed by the Commission in 08-277, resulting in an authorized annual recovery of \$370 (*Id.*).

Water and Sewer also focuses on the ten-year amortization of the \$25,000 expense associated with emergency septage hauling during certain months of 2007. The applicant states that this amortization was approved by the Commission in 08-227, resulting in an authorized annual recovery of \$2,500. (*Id.*) Finally, Water and Sewer points to the four-year amortization of the \$14,920 road repair expense approved by the Commission in 08-277, resulting in an authorized annual recovery of \$3,730 (*Id.* at 3).

Based on the aforementioned allegations, Water and Sewer opines that Staff's determination of allowable adjusted test-year Operation and Maintenance expense is understated by \$7,312 (*Id.*). Water and Sewer recognizes the Commission's long-standing policy to exclude continued amortization of the unrecovered rate case expenses resulting from a prior rate case. Notwithstanding this acknowledgement, Water and Sewer submits

that “in all other instances where the Commission has approved a multi-year amortization of a specific test-year expense due to its extraordinary nature, but cost recovery has not been completed at the time of the applicant utility’s next rate case, the Commission has routinely approved the continuation of the amortization in its order of the succeeding case, as evidenced its (sic) in Case No. 08-227-WS-AIR approving the continuation of the amortizations authorized in Case No. 03-318-WS-AIR” (*Id.*).

Our detailed discussion of this disputed issue will begin with a summary of the evidence of record and the legal arguments presented on brief. It will conclude with the Commission’s ruling.

(a) Evidence of record

According to the Water and Sewer witness Kenneth Rosselet, Jr., while Water and Sewer generally supports Staff’s revenue requirement analysis, the disallowance of certain expenses results in Staff’s proposed revenue requirement being understated (Applicant Ex. 2 at 5). Specifically, Water and Sewer objects to “Staff’s failure to recognize the treatment accorded certain expenses in the company’s two prior rate cases and the Staff’s failure to include an allowance for the continuing annual recovery associated with expense amortizations approved by the Commission in those proceedings” (*Id.* at 6). The witness asserts that, although the starting point in determining the appropriate annual allowance for an expense category for ratemaking purposes is the actual cost incurred in the test year, sometimes a cost is extraordinary in nature and the Commission amortizes the expense over some appropriate period of time (*Id.* at 7).

For example, witness Rosselet notes that the Commission, in 03-318, authorized a ten-year amortization of \$7,122 in sludge removal expense related to the clean-up effort required due to poor maintenance practices of the sewer plant’s prior owner and a ten-year amortization of the \$3,700 cost of the sludge management plan mandated by the Ohio Environmental Protection Agency (EPA), thereby providing for annual recoveries for these items of \$712 and \$370, respectively. Witness Rosselet states that since the rates approved in 03-318 did not take effect until 2005, expenses have not yet been fully recovered over the approved ten-year amortization period. (*Id.*; Applicant Ex. 3 at 3.) Water and Sewer points out that, although the Staff Report in 08-227 did not provide for the continuing recovery of these annual amounts, the stipulation approved in 08-277 did provide for such continued recovery (Applicant Ex. 2 at 8). Additionally, Water Sewer notes that in his prefiled testimony responding to the objections to the Staff Report in 08-227, Staff witness Richardson stated that he agreed with the company’s objection regarding Staff’s failure to include the previously approved amortizations. As further support for his position, witness Rosselet points out that Staff witness Richardson stated his agreement with the company’s objection prior to the stipulation in 08-227 being executed. (Applicant Ex. 3 at 4.)

In addition to the continued amortization of expenses approved in 03-318, witness Rosselet points out that the stipulation in 08-227 also provided for the ten-year amortization of the \$25,000 emergency septage hauling expense incurred during certain months of the 2007 test year in that case and the four-year amortization of the \$14,920 in road repair expense (Applicant Ex. 2 at 8). As a result, the 08-227 stipulation provided for approved annual recovery amounts of \$2,500 and \$3,730 for septage hauling and road repair expense, respectively. Witness Rosselet notes that, inasmuch as the rates approved in 08-227 did not take effect until 2009, neither the ten-year amortization of the emergency septage hauling expense nor the four-year amortization of the road repair expense have been completed (Applicant Ex. 3 at 3).

Water and Sewer submits that actual impact of Staff's failure to include the annual recovery amounts associated with the previously approved amortizations that are now in question results in an understatement of allowable expenses in the amount of \$7,312 (*Id.* at 3). Witness Rosselet submits that the failure to include these amounts also effects the cash component of the working capital formula and, thus, results in the rate base being understated as well (*Id.* at 3, 4).

Water and Sewer rejects the rationale provided by Staff witness Crocker as to Staff's failure to include the annual recovery amounts associated with the previously approved amortizations. Specifically, the applicant submits that Staff has confused the principle of adjustments made to actual test-year ordinary expenses to assure that the allowance for a particular normal and necessary utility expense is representative for ratemaking purposes and the principle of the amortization of an actual extraordinary test-year expense to provide for the recovery of the expense in annual increments over a future time period (*Id.* at 5, 6).

Witness Rosselet disagrees with the assertion of Staff witness Crocker that Commission precedent supports her recommendation in this case not to provide for the continuation of previously approved amortizations. Rather, witness Rosselet submits that, except in the case of rate case expense, he is not aware of any other cases in which the Commission has terminated a previously authorized expense amortization prior to the recovery being completed. (*Id.* at 9, 10.) Witness Rosselet also disagrees with Staff's contention that by filing a new application for a rate increase, the company has, in effect, elected to forego recovering the previously approved amortized amounts. In support of his position, witness Rosselet notes that Staff's own analysis reflects that the company suffered a loss in excess of \$16,000 during test year 2010 and is entitled to rates that will generate approximately \$33,000 in additional gross annual revenues. Additionally, witness Rosselet states that, if Staff's contention is correct, the amortizations approved in 03-318 would have been terminated as a result of the company's election to file for an increase in 08-227. (*Id.* at 11, 12.)

Staff witness Crocker states that Staff does not support the carry-forward of unamortized expenses from prior rate cases (Staff Ex. 3 at 3, 4). She believes that the exclusion of past expenses is consistent with the Commission's prior decisions in Case Nos. 73-509-EL-AIR (73-509), *In the Matter of the Application of Ohio Edison Company for Authority to Change Certain of its Filed Schedules Fixing Rates and Charges for Electric Service*, Opinion and Order (November 26, 1975); 76-88-GA-AIR (76-88), *In the Matter of the Application of the Dayton Power and Light Company for Authority to Modify and Increase its Rates for Gas Service to All Consumers*, Opinion and Order (July 22, 1977); 76-704-GA-CMR (76-704), *In the Matter of the Complaint and Appeal of Columbia Gas of Ohio Inc. et al.*, Opinion and Order (June 29, 1977); and 77-545-EL-AIR (77-545), *In the Matter of the Application and Complaint and Appeal of Columbus and Southern Ohio Electric Company for Authority to Amend and Increase Certain of its Rates and Charges for Electric Service*, Opinion and Order (March 31, 1978). Specifically, she opines that these decisions stand for the proposition that the inclusion of certain expenses is not to guarantee that a company will experience a dollar-for-dollar recovery of specific actual expenses but, rather, to establish a reasonable allowance for a normal and necessary utility function. (*Id.* at 2, 3.) Witness Crocker notes that the company chose to come in for a rate case prior to full recovery of the various expenses identified by the company and, therefore, Staff does not recommend including recovery of these expenses in this case (*Id.* at 3).

(b) Legal arguments by the parties

In its post-hearing brief, Water Sewer submits that the failure to provide for the annual recovery amounts associated with amortizations previously approved by the Commission is inconsistent with Staff policy and Commission precedent. In particular, Water and Sewer asserts that Staff witness Crocker failed to recognize the distinction between adjustments to actual test-year expenses to create a reasonable allowance for a particular category of ordinary expense and the amortization of an extraordinary test-year expense over a specified future period. While Water and Sewer recognizes that it is appropriate for the Commission to engage in the normalization and annualization adjustments relative to ordinary and necessary utility expenses, the scenario in this case is distinguishable from this kind of treatment inasmuch as it deals with the amortization of an extraordinary expense incurred by the utility during a test year. (Water and Sewer Br. at 14 citing Applicant Ex. 3 at 6, 7.) Specifically, Water and Sewer explains that unlike normalization and annualization adjustments, which are intended to establish a representative allowance for a particular normal category of expense, amortizations are approved in instances where a test-year expenditure is not a normal, ordinary expense, but is, nonetheless, unavoidable by the utility and necessary for the utility to continue to provide service to its customers (*Id.* at 15 citing Ex. 3 at 7, 8). According to Water and Sewer, the Commission typically amortizes the extraordinary test-year expenditures over

some appropriate period of time, thereby providing for recovery in annual increments over the amortization period (*Id.* at 15).

Water and Sewer, in its post-hearing brief, questions the assertions of Staff witness Crocker that her failure to provide for an allowance relative to the amortized expenses was a deliberate decision made at the time the Staff Report in this case was prepared, and not simply an oversight (*Id.* at 12). To this point, Water and Sewer focuses on Ms. Crocker's inability to identify precisely when and if she received supervisory approval to disregard the amortizations now in dispute (*Id.* at 12 citing Tr. 121-126). Similarly, Water and Sewer questions Ms. Crocker's assertion that "exclusions of past expenses is consistent with prior Commission decisions" (*Id.* at 12, 13 citing Staff Ex. 3 at 2). Rather, the applicant submits that the Commission has previously recognized the distinction between normalization and annualization adjustments, on the one hand, and the amortization of an extraordinary expense, on the other hand (*Id.* at 15). Specifically, Water and Sewer points to the Commission's approval of a stipulation in 08-227, which provided for the ten-year amortization of the emergency sludge hauling, as well as a normalization adjustment for normal sludge hauling expense (*Id.* at 16). Further, Water and Sewer submits that it would have never agreed to cap the recovery of the emergency sludge hauling expense at \$25,000 and to recover the expense in \$2,500 increments had it been aware that Staff would attempt to cut-off the amortized recovery just three years into the recovery period (*Id.* at 17).

Water and Sewer rejects Ms. Crocker's contention that ending the amortization previously approved in 03-318 and 08-227 is consistent with the Commission's prior decisions (e.g., 73-509, 76-88, 76-704, and 77-545). Specifically, the applicant submits that the cited cases from the 1970s do not involve the continuation of previously approved amortized expenses, but, rather address the disallowance of the recovery of unamortized rate case expense associated with the applicant's prior rate case. The applicant explains that, in the cited cases, the Commission disallowed the continued amortization of the rate case expense due to the fact that the unrecovered rate case expense is an exception to the standard practice of providing an allowance in rates to reflect the annual recovery amounts associated with previously approved amortizations. (*Id.* at 18.)

In support of its position, Water and Sewer asserts that if Ms. Crocker is correct in her belief that all previously approved amortizations are automatically terminated by the filing of a subsequent rate case, there would have been no need for the Commission to carve out an exception for rate case expense amortizations, and the Commission would not have provided for the continuation of the amortizations approved in 03-318 by adopting the stipulation in 08-227 (*Id.*). As further support for its stated position, Water and Sewer cites to the testimony of Mr. Rosselet in which he testified that, subject to the exception for rate case expense, he knew of no instance in which the Commission terminated a

previously authorized expense amortization before recovery was completed (*Id.* at 20, 21 citing Applicant Ex. 3 at 9).

Additionally, Water and Sewer contends that when the Commission spread the recovery of expenses amortized in 03-318 over a ten-year period, there was no expectation stated by the Commission that the company would not file for another rate increase over this time frame. In particular, Water and Sewer highlights that the five-year rate case expense amortization demonstrates that there was an expectation that the company would be in for a new rate case before the ten-year amortization was completed. (*Id.* at 22.) As further support of its position, Water and Sewer focuses on the fact that in 08-227, the Commission extended the amortizations approved in 03-318. To the extent that Ms. Crocker's position regarding Commission precedent is correct, Water and Sewer submits that the Commission should have never approved the continuation of the amortizations in 08-227. (*Id.* at 22.) Further, Water and Sewer avers that Ms. Crocker's interpretation would leave utilities "with a Hobson's choice by forcing them to forego the previously authorized recovery of unamortized expense balances as a condition of seeking required rate relief" (*Id.* at 23).

Water and Sewer's last argument with respect to the issue of the continued amortizations resulting from prior cases focuses on the assertion that Staff's failure to provide an allowance for the annual recovery amounts associated with the four previously approved amortizations violates the Stipulation in 08-227. Water and Sewer believes that it is appropriate for it to pursue the enforcement of the Stipulation. According to the applicant, to do otherwise would be unfair inasmuch as it had agreed, for settlement purposes, to cap the amortized emergency sludge hauling expense at less than half the amount actually incurred. Finally, Water and Sewer notes that, even prior to the Stipulation in 08-227, Staff agreed with the applicant's contention that the prior uncompleted amortizations should be continued. (*Id.* at 24.)

With respect to the issue of the ongoing recovery of previously authorized operations and maintenance expense operations, Staff submits that, although the Commission previously authorized recovery of these extraordinary expenses, the company was never guaranteed dollar-for-dollar recovery (Staff Br. at 3 citing Staff Ex. 3 at 2). Staff believes that the discontinuation of the disputed amortized expenses is appropriate because of the risk of over-recovery. Staff avers that its position is consistent with the Commission's treatment in other prior cases in which the Commission discontinued the recovery of authorized expenses even though the expenses had not yet been fully recovered. (*Id.*)

Staff considers the arguments raised by Water and Sewer to stand for the proposition that the Commission guaranteed recovery of the amortized amounts when it approved them in prior rate cases. Staff believes that such a result is contrary to the

Commission's prior holding that it does not guarantee the recovery of normal or extraordinary expenses. [Staff Br. 4, 5 citing *In re: Ohio Edison Company*, 61 P.U.R. 4th 241, 261 (P.U.C.O. 1984); *In re: Dayton Power & Light Co.*, 29 P.U.R. 4th 145 (P.U.C.O. 1979).]

In support of its position, Staff relies upon the same rationale upon which the Commission has previously discontinued unrecovered amortized rate case expenses (*Id.* at 5 citing *In re Columbus & Southern Ohio Electric Co.*; *In re Columbia Gas of Ohio Inc.*). Specifically, Staff asserts that the same concern regarding ratepayers being exposed to risk of over-recovery is equally applicable to the issue of non-rate case expenses (*Id.* at 5). Staff points out that if the Commission adopts the company's proposal, the company will recover \$7,312 in amortized expenses until its next rate case because the expenses would be incorporated into rate base. Specifically, Staff submits that the company would recover the full \$7,312 even after the end dates for the respective amortization periods. Therefore, Staff does not consider the stated end dates to be true end dates for recovery purposes. As an example of this point, Staff notes that the amortization end dates for the specified accounts are as follows: (1) road repair (May 27, 2013), (2) major sludge removal (December 1, 2014), (3) sludge management plan (December 1, 2014), and (4) emergency septage hauling (May 27, 2019). (*Id.* at 6, 7.) Therefore, with respect to road repair expense, Staff submits that, as soon as May 28, 2013, the applicant will begin to over-recover provided Water and Sewer does not file another rate case with rates to become effective on or before May 27, 2013.

Richfield supports the Staff's exclusion of the amortizations approved in the prior rate cases that have not yet expired. Richfield submits that if the Commission allows amortizations that are to expire in the next couple of years to continue and be included in Water and Sewer's rate base, there will be a substantial risk of over-recovery of these expenses to the detriment of the ratepayers. (Richfield Br. at 8.) In support of its position, Richfield states that the Commission has previously recognized the need to "minimize the risk that ratepayers will be subject to rates which have costs built into them that have already been recovered" [*Id.* at 8 citing 77-545, Opinion and Order (March 31, 1978), at 24]. Richfield also points out that it is not known when or even if Water and Sewer will file its next rate case. Richfield notes that this issue is further complicated by the fact that the company and the Village are engaged in discussions for a transfer of service allowing Water and Sewer to exit the sewer business. (*Id.* citing Tr. 55.)

(c) Commission analysis

The Commission finds that Water and Sewer is correct in its objection to Staff's exclusion of annual amounts associated with certain expense amortizations previously approved by the Commission in both 03-318 and 08-227. Based on a review of the record in this case, it is clear that Staff witness Crocker has attempted to apply the rationale set forth in the Commission decisions in 73-509, 76-88, 76-704, and 77-545 in order to justify

the denial of the continued amortization of the following expenses: road repair, major sludge removal, sludge management plan, and emergency septage hauling. While Ms. Crocker attempts to analogize the cited decisions to support her testimony regarding the discontinuation of unrecovered amortizations for extraordinary expenses, a review of the cited cases does not cause the Commission to reach the same conclusion. Rather, regarding the issue of the continuation of previously approved amortizations, the Commission agrees with Water and Sewer that the prohibition set forth in the Commission's decisions in the aforementioned cases was limited in scope to the subject of the recovery of rate case expenses and did not extend to the issue now before the Commission regarding the continued amortization of extraordinary expenses. (See 76-88, Opinion and Order at 11; 76-704, Opinion and Order at 8; 77-545, Opinion and Order at 24.)

In actuality, the prohibition set forth in the aforementioned cases is an exception to the general treatment for the continued amortization of previously approved rate cases expenses. This point is evidenced by the Commission's continued amortization in 08-227 of extraordinary expenses initially approved in 03-318. As further support for this conclusion, the Commission focuses on Staff's own recognition in 08-227 that the Staff Report in that case should have reflected an allowance for the annual recovery amounts associated with the continuation of the amortizations approved in the prior case (Water and Sewer Ex. 3, Ex. KNR-Reb-1 at 6). The Commission also agrees with Water and Sewer that if the Commission did not intend for the continued amortization of previously approved expenses, it would not have previously carved out an exception relative the rate case expense and allowed for the continued recovery of the amortization of other expenses approved in prior cases. Rather, it would have prohibited the continued amortization of all unrecovered expenses across the board. Finally, the Commission emphasizes that the prior decisions in 03-318 and 08-227 did not condition the recovery of approved amortizations to the requirement that the company not file for additional rate increases.

Notwithstanding this determination, the Commission is keenly aware that Water and Sewer is uniquely situated due to the fact that it is a small, privately-owned utility with an extremely limited customer base (i.e., 77 customers). Further, while Water and Sewer customers originally paid \$280 for service in 2000, when the applicant purchased the utility, its customer base has already experienced two recent rate increases resulting from applications filed in 03-318 and 08-227. Therefore, the current request would be the third rate increase over a relatively short period of time. Specifically, in 03-318, Water and Sewer was granted an annual rate of \$1,057.20 (representing an increase of 277.5 percent) and in 08-227, Water and Sewer was granted a rate of \$1,330.14 (representing a further increase of 25.84 percent). Pursuant to the application filed in this case, customers could see their rates increase to \$1,836.66 per year, signifying an increase of another 40 percent over current rates. (Staff Ex. 4 at 4.) Recognizing that the proposed percentage of increase is by itself significant, the Commission notes that the impact of the requested increase is

magnified by the very small customer base across which the revenue requirement will be allocated.

Specific to the issue of the continued amortizations, the Commission notes that the following amortized expenses remain not fully recovered. Along with these expenses are the applicable case numbers and period of time by which the amortizations are to be completed:

1. Sludge-Major, 03-318, December 1, 2014
2. Sludge Management, 03-318, December 1, 2014
3. Sludge-Emergency, 08-227, May 27, 2019
4. Road Repair, 08-227, May 27, 2013

While, as discussed *supra*, the Commission agrees that Water and Sewer is entitled to the continued recovery of the extraordinary amortized expenses that have not been fully recovered, the Commission believes that this recovery should end for each extraordinary expense upon the complete recovery of the amortized expense and not continue until the filing of the next rate case if the application for a rate increase occurs subsequent to the complete recovery. To allow for the continued recovery after the amortization has been completed will result in an over-recovery from the time of the completed amortization until the filing of the next rate case. Thus, Water and Sewer shall only be allowed to charge rates that include those expenses for which the amortization recovery period is still in effect. Upon the completion of each recovery period, Water and Sewer must file revised tariffs reflecting the removal of the fully amortized expense. Failure to do so will result in the applicable forfeitures and ratepayer refunds. This treatment is especially appropriate in this case in light of the fact that Water and Sewer has such a small customer base resulting in the magnified impact of any ordered revenue increase.

2. The Appropriateness of Staff's Disallowance of One-Half of Water and Sewer's Adjusted Test-Year Insurance Expense.

The second contested issue pertains to Water and Sewer's objection to the Staff Report relative to the disallowance of one-half of Water and Sewer's adjusted test-year insurance expense related to the Commercial Package Policy (umbrella and property) and the Pollution Control Policies. Specifically, Water and Sewer objects to the allocation in the Staff Report of one-half of the test-year pollution and umbrella, and property insurance expenses to "nonregulated business operations," in the amount of \$9,178. (Objection to Staff Report at 4.) Water and Sewer identifies the nonregulated business operation as Richfield Furnace Run Associates (RFRA). Water and Sewer avers that, although Water and Sewer have the same member-owners, RFRA is a totally separate legal entity and has no ownership interest in Water and Sewer or in any of Water and Sewer's property or business. (*Id.*)

Our detailed discussion of this disputed issue will begin with a summary of the evidence of record and the legal arguments presented on brief. It will conclude with the Commission's ruling.

(a) Evidence of record

The Commercial Package Policy was issued by Westfield Insurance Company and includes property and umbrella coverage. The Pollution Control Policy was issued by Philadelphia Insurance Company. (Water and Sewer Exs. 4, 5, 6.) According to witness Rosselet, "although Water and Sewer and RFRA have the same member owners, RFRA is a totally separate legal entity from Water and Sewer, has no ownership interest in Water and Sewer or in any Water and Sewer property or business, and maintains its own insurance coverage and its own property and business. The insurance premiums in question were paid solely and directly by Water and Sewer and were for coverage that related solely to Water and Sewer's sewer plant and sewer business." (Applicant Ex. 2 at 10, 11.)

Mr. Rosselet explains that the utility facilities owned by Water and Sewer were acquired from the previous owner as part of a large transaction that also included the purchase of some 125 acres of real property adjacent to the utility service. According to Mr. Rosselet, while RFRA arranged both purchases, at the time of closing, Water and Sewer took title to the utility facilities and RFRA took title to the real property, including the real property upon which Water and Sewer's sewage treatment plant and related facilities are located. The total purchase price was allocated between the two companies. (*Id.* at 11; Applicant Ex. 3 at 13, 14.)

Although, as owner of the sewer facilities, Water and Sewer is entitled to insurance reimbursements for losses, Mr. Rosselet submits that RFRA was also identified as a named insured in order to provide it with protection in case it was named in an action for damages. Water and Sewer believed that such coverage was necessary due to the manner in which the utility and real property interests were transferred. (Applicant Ex. 2 at 11, 12.) According to Mr. Rosselet, the only coverage under the Commercial Package Policy that extends to RFRA is the General Liability Coverage for the real property owned by RFRA upon which Water and Sewer's sewage treatment plant and other related facilities are located. To this point, Water and Sewer notes that, while the total annual premium for the Commercial Package Policy is \$13,157 the annual premium for the General Liability coverage is \$1,347. Therefore, to the extent that there is going to be any allocation of insurance expense to RFRA based on the theory that RFRA benefits from the Commercial Package Policy, Water and Sewer submits that it should be limited to one-half of the \$1,347 General Liability Coverage premium, with the remaining deducted Commercial Package Policy premiums included as an allowable expense. (Applicant Ex. 3B at 14, 17.)

Mr. Rosselet submits that identifying RFRA as a named insured on the Water and Sewer policies has no effect on the cost of the premiums paid by the company and that the applicant would have incurred the same expense for pollution, umbrella, and property insurance regardless of whether RFRA had been named as an insured. In support of his position, he included an email from Water and Sewer's insurance agent addressing this representation. (Applicant Ex. 2 at 12.) Mr. Rosselet also contends that, while Staff allocated one-half of the adjusted Pollution Control insurance expense to RFRA, this allocation is inappropriate due to the fact that including RFRA as a named insured had no effect on the amount of premiums paid by Water and Sewer. As a result, the applicant contends that the entire adjusted annual premium of \$5,199.36 for pollution insurance should be included as an allowable expense. (Applicant Ex. 3B at 14-17.)

Finally, Mr. Rosselet acknowledges that the Commercial Package Policy in place at the end of the test year inappropriately included coverage of water assets. He explains that, upon realizing this error, the insurance company was informed and a refund was issued in the amount of \$3,048. Therefore, Water Sewer submits that the cost of the premium for the coverage of the water assets should be eliminated in its entirety, thereby reducing the allowance for the premiums associated with the Commercial Package Policy by \$3,048 and leaving \$10,109.04 expense. (Applicant Ex. 3 at 16.)

Staff witness Crocker rejects Water and Sewer's objection to Staff's adjustment to the insurance expense. Ms. Crocker identifies the fact that the insurance policy clearly includes coverage for water assets and, therefore, half of the insurance expense should be allocated to the now unregulated water business. (Staff Ex. 3 at 3.) Additionally, Ms. Crocker notes that RFRA is currently named on the insurance policy and, therefore, receives a benefit from the policy. Therefore, Staff submits that a portion of the insurance cost should be allocated to this entity. (*Id.*)

(b) Legal arguments raised by the parties

In regard to Staff's disallowance of expenses related to water assets, Water and Sewer states that, although there should be an adjustment to recognize the cost of the Commercial Package premium associated with the remaining water assets, there is no basis for adopting Staff's proposed allocation of one-half of the annualized test-year insurance expense to the company's former water operations. Specifically, Water and Sewer opines that the disallowance of the Commercial Package insurance policy related to water assets should be limited to the amount of the premium that was attributable to the coverage of those assets. (Applicant Br. at 28.) Water and Sewer points out that as soon as it became aware of the fact that the test-year insurance policy included coverage for water assets, which were no longer used for the provision of public utility service, it notified its insurance agent and sought a refund of the premium previously paid under the policy that were related to the coverage of the water assets (*Id.* at 29 citing Applicant Ex. 3B at 16, 17).

Inasmuch as the premium refund for the water asset coverage in place at the end of the test year was \$3,048, Water and Sewer believes that amount should be excluded for the water asset coverage under the Commercial Package Policy, leaving \$10,109.04 as the appropriate adjusted cost of the annualized premium associated with the policy (*Id.*).

With respect to the concern of RFRA being included as a named insured, Water and Sewer asserts that, inasmuch as the inclusion of RFRA added nothing to the costs of either the Pollution Control Policy or the Commercial Package Policy, the Staff's allocation of one-half of the total adjusted test-year insurance expense to RFRA is unreasonable and inappropriate (*Id.* at 30). Moreover, Water and Sewer states that, in light of the manner in which the interests of the utility facilities and the real property, including the land upon which the sewage disposal plant sits, were transferred to Water and Sewer and RFRA, respectively, the management of the two companies foresaw the possibility that RFRA could be named as defendant in an action for damages in connection with Water and Sewer's sewer operations. RFRA analogizes this situation to the scenario in which a mortgage holder is named as an insured on a homeowner policy. (*Id.* at 31 citing May 10, 2012, Tr. 31, 32.)

In support of its position, Water and Sewer avers that the cost of the policy premiums did not increase with the subsequent addition of RFRA as a named insured inasmuch as there is no additional marginal risk to the insurer by adding the additional insured (Applicant Br. at 31; Applicant Ex. 3B at 15). Therefore, Water and Sewer submits that whatever benefit RFRA derives from the insurance coverage, it comes at no cost to Water and Sewer's customers (Applicant Br. at 32). Further, Water and Sewer emphasizes that if the Commission adopts Staff's recommendation that the insurance expense be cut in half, the applicant will have no means to recover the excluded \$9,178.20 of ordinary, necessary, and unavoidable expense. In particular, Water and Sewer indicates that it could not send a bill to RFRA for this amount (*Id.* at 32).

In regard to the Pollution Control Policy, Water and Sewer objects to the Staff's disallowance of one-half of the annualized premium due to the fact that the policy is strictly related to the sewer facilities and has nothing to do with the company's remaining water assets (*Id.* at 29 citing Applicant Ex. 5). Similar to its position with respect to the Commercial Package Policy, Water and Sewer believes that the mere adding of RFRA as an additional named insured on the Pollution Control Policy should not result in a disallowance of any of the paid premium due to the fact that the action did not increase the cost of the premiums (Applicant Br. at 33).

Staff notes that there are two insurance policies at issue with respect to this disputed issue. The first is referred to as a Commercial Package or Umbrella policy and the second is identified as a Pollution Control Policy. Staff expresses concern over the fact that the policies in question include coverage for both the former water assets and for non-

utility businesses. Staff believes that the ratepayers should not be required to pay to provide insurance coverage for a related, non-utility entity insured (RFRA). (Staff Br. at 8 citing May 10, 2012, Tr. 152.)

Specific to the Commercial Package Policy, Staff believes that, inasmuch as the policy provides RFRA with liability protection in the event that it is named as a defendant in a lawsuit against Water and Sewer, the cost of the policy should be allocated between the utility and the non-utility operations (*Id.* at 9 citing May 10, 2012, Tr. 148). Notwithstanding Water and Sewer's contention that the insurance benefits exist at no additional cost to ratepayers, Staff asserts that RFRA has certainly benefitted as a result by receiving insurance coverage without the payment of an insurance premium (Staff Br. at 10).

Staff rejects the applicant's alternative proposal that any allocation of insurance expense should be limited to the General Liability Coverage premium of \$1,347, rather than the total \$13,157 premium for the Commercial Package Policy. Despite Water and Sewer's claim that the General Liability is the only coverage under which RFRA could reasonably benefit, Staff insists that the record is unclear as to the actual application of the sub-policies included as part of the Commercial Package Policy. Specifically, Staff points out that the affidavit provided by the applicant's insurance agent is limited in scope to that coverage applicable to any real property owned by RFRA, and does not address the applicability to coverage unrelated to real property held by RFRA. (*Id.* at 11.)

In support of its position, Staff explains that the Commercial Package Policy actually consists of the following:

1. Commercial Property Coverage
2. Commercial General Liability Coverage
3. Commercial Auto Coverage
4. Commercial Inland Marine Coverage
5. Commercial Umbrella Coverage

Staff notes, for example, that the Auto Coverage and the Commercial Inland Marine Coverage could include coverage for RFRA of both personal property and business income. Additionally, Staff submits that the Umbrella Coverage may be applicable to RFRA by providing bodily injury and property damage liability. (*Id.* at 11, 12.)

With respect to the Pollution Control Policy, Staff contends that RFRA was added as a named insured for the same general liability coverage reasons that RFRA was named to the Commercial Package Policy (*Id.* at 12, 13 citing May 10, 2012, Tr. 22). Therefore, Staff insists that RFRA receives a benefit from the Pollution Control Policy. Further, Staff insists that similar to the Commercial Package Policy, the record is void of any evidence that

RFRA could have secured comparable coverage at no cost. Additionally, Staff contends that the company has not adequately demonstrated that the Pollution Control Policy does not cover unregulated entities and assets. To this point, Staff submits that the record is unclear as to the specifically identified parcel of land covered by the Pollution Control Policy. (*Id.* at 13 citing May 10, 2012, Tr. 153, 154.)

Finally, Staff submits that the Pollution Control Policy in actuality covers losses for more than just pollution issues caused by or at the sewer plant. Staff notes that coverage benefits extend to RFRA for any liability arising out of its ownership, use, operation, or financing of the insured location. (*Id.* at 13 citing Applicant Ex. 5 at 16, 17.) According to Staff, these coverages under the Pollution Control Policy indemnify RFRA for a number of losses including those for remediation, bodily injury, property damage, and damage to image, reputation, or consumer confidence resulting from contamination on, under, or migrating from the insured location, including materials that may have been illegally disposed of or abandoned at the insured location by parties other than the insured (*Id.*).

Richfield submits that, in light of the fact that RFRA benefits from coverage under the insurance policies, Staff properly allocated some of the insurance premium costs to RFRA based on the insurance benefit shared by Water and Sewer and RFRA (Village Br. at 5). In response to Water and Sewer analogizing being named as an insured on the insurance policies to a mortgagee being listed as an additional insured on a homeowner's policy, Richfield distinguishes RFRA's position as a property owner due to the fact that it could be held directly liable for damages (*Id.* at 6 citing Applicant Ex. 2 at 12). Richfield opines that, while Water and Sewer insists that there is no additional cost for adding RFRA to the pollution policy, RFRA was always intended to be on the policy and, therefore, its inclusion was already included in the premium amount. Richfield posits that "[c]ommon sense and the co-equal receipt of benefits of insurance coverage by two entities, one regulated and one unregulated, clearly supports a 50-50 allocation of insurance expense." (*Id.* at 7.)

(c) Commission analysis

As one of the justifications for the proposed exclusion of one-half insurance expenses, Staff asserts that the expenses should be allocated to the now unregulated former water business in light of the fact that the insurance policy clearly includes coverage for water assets (Staff Ex. 4 at 3; May 10, 2012, Tr. 157, 158). Staff recognizes that, in theory, the appropriate correction to address the inappropriate inclusion by the applicant of insurance premiums applicable to the previous water assets would be to exclude the entire amount of premium related to those assets. Ms. Crocker indicates that this treatment was not followed due to the fact that she was unable to ascertain the specific assets covered by the insurance. (May 10, 2012, Tr. 160.) With respect to this issue of the inclusion costs related to the prior water assets the Commission finds that, based on the

record, the only identified water asset insurance cost pertains to the Commercial Package Policy and a premium of \$3,048. (See Staff Ex. 3A at 17.) Therefore, the allowance for the Commercial Package Policy expense should be reduced by \$3,048. While recognizing the concerns expressed by Staff, the 50 percent reduction in the entire insurance expense proposed by Staff is too speculative in nature and not supported by the record. The Commission finds that such an approach would result in an under-recovery by the applicant.

It is clear that Water and Sewer and RFRA are both designated as insureds under the Commercial Package Policy and the Pollution Control Policy in effect for the test year in this case (May 10, 2012, Tr. 17, 26; Applicant Ex. 3, KNR-Reb-3 and 5). The Commission finds that Water and Sewer acknowledges that RFRA may have benefitted by being identified as an insured under both the Commercial Package Policy and the Pollution Control Policy (May 10, 2012, Tr. 33, 34). Despite recognizing that RFRA may have potentially benefitted under the policies, Water and Sewer asserts that there should be no adjustment of the Water and Sewer's test year insurance expense in the form of an allocation of one-half of the adjusted test-year insurance expense due to the fact that any benefit that RFRA derived came at no cost to Water and Sewer customers.

Upon review, the Commission finds that some portion of the Commercial Package Policy should be allocated to RFRA inasmuch as it has derived a coverage benefit as a named insured under the policy despite not having contributed towards the premium. In reaching this decision, the Commission highlights the fact that Water and Sewer acknowledges that "RFRA is a totally separate legal entity from Water and Sewer, has no ownership interest in Water and Sewer or any of Water and Sewer's property or business, and maintains its own insurance coverage on its own property and business" (Water and Sewer Objections at 4; Applicant Ex. 2 at 10). Based on the represented independent existence of the two entities, it is only reasonable to require RFRA to contribute towards half of the cost of the Commercial Package Policy premium since it independently derived a benefit under the policy. Additionally, since it was a named insured, it is reasonable to conclude that the premium level was established based on this fact. Further, as noted by Richfield, in light of the fact that both were insureds under the policy, there is no reason why Water and Sewer, and not RFRA, was the entity responsible for the premium (Village Br. at 6, 7). It is certainly just as plausible that RFRA could have paid for the premium. Under that scenario, at least some of the insurance premium costs would not have been included in this case.

The Commission recognizes that Water and Sewer submitted a purported email from an insurance agent to support the claim that its insurance premium would be the same even if RFRA had not been named as an insured on the Commercial Package Policy. (See Applicant Ex. 2 at Ex. KNR-2.) This representation was not offered in the form of a notarized affidavit. No additional evidentiary support was provided for the

representation that there is no impact on the premium as a result of RFRA being identified as an insured under the policy. (See Applicant Ex. 2 at 12). Further, no clear explanation was provided as to why RFRA did not arrange for its own insurance coverage or why the insurance company would allow for the two insureds to be covered under the same policy without an increase in premium.

In regard to the actual amount of insurance premiums that should be allocated to RFRA, the Commission recognizes that the Commercial Package Policy actually consists of the following parts with a total annual premium of \$13,157:

1. Commercial Property Coverage
2. Commercial General Liability Coverage
3. Commercial Auto Coverage
4. Commercial Inland Marine Coverage
5. Commercial Umbrella Coverage

(Applicant Ex. 4 at 12th page). Relative to these insurance overages, the record reflects that only the General Liability Coverage applied to any real property owned by RFRA (Applicant Ex. 3 at KNR-Reb-2). While Staff attempts to argue that the Auto Coverage and Inland Marine Coverage could apply to RFRA for assets other than real property, this appears to be merely speculation and not supported by the record (See Staff Br. at 11, 12). Therefore, one-half of the Commercial General Liability Coverage should be allocated to RFRA and deducted from the allowable company expense.

Regarding the issue of the Pollution Control Policy, similar to the analysis discussed *supra* regarding the Commercial Package Policy, Water and Sewer did not provide sufficient evidentiary support for its contention that the subsequent inclusion of RFRA as an insured on the pollution policy had no effect on the premiums paid by Water and Sewer (See Applicant Ex. 3B at 15, KNR-Reb-4 and 5; May 10, 2012, Tr. 45). Due to the fact that the record (e.g., Applicant Ex. 5) reflects that both the applicant and RFRA both benefitted as identified insureds under the Pollution Control Policy, it is reasonable for the associated premium to be shared between the two entities. As further support for this position, the record reflects that it was always the intention that RFRA be included as an insured under the Pollution Control Policy (May 10, 2012, Tr. 22-26). Therefore, it is reasonable to conclude that the premium levels were premised on this fact. As a result, the allocation of one-half of the cost of the annualized premium of the Pollution Control Policy should remain in place. In reaching this decision, the Commission concludes that RFRA would have incurred some premium expense if it purchased the Pollution Control Policy independent of Water and Sewer's policy.

Operating Income Summary

Consistent with the foregoing discussion, the Commission finds that Water and Sewer's operating revenues, operating expenses, and net operating income to be as follows:

	<u>Opinion and Order Adjusted Revenue and Expenses</u>	<u>Opinion and Order Pro Forma Revenue and Expenses</u>
<u>Operating revenue</u>		
Wastewater sales	\$102,421	140,680
Other operating revenues	<u>447</u>	<u>614</u>
Total operating revenue	102,868	141,294
<u>Operating expenses</u>		
Operation & Maintenance	125,343	125,343
Depreciation & Amortization	1,828	1,828
Taxes, Other Than Income	458	1,073
Federal Income Taxes	<u>(3,722)</u>	<u>1,858</u>
Total Operating Expenses	123,906	130,102
Net Operating Income	(21,038)	11,192

In reaching the following determinations, the Commission has adopted the \$15,000 rate case expense incorporated in the Staff Report Schedule C-3.6. The Commission recognizes that the applicant, pursuant to its late-filed exhibit of June 7, 2012, stated that its total rate case expense incurred in connection with this proceeding through May 31, 2012, was \$27,059.34.

In determining the reasonableness of a rate case expense, the Commission must consider the size of the company and a comparison of the rate case expense relative to the required revenue increase. In this case, the Commission notes that Water and Sewer is a small waste water company with only 77 customers. The company filed its application consistent with the abbreviated filing requirements set forth in Chapter IV of the Commission's Standard Filing Requirements set forth in Rule 4901:1-7-01, O.A.C., Appendix A. The abbreviated filing requirements were adopted for the purpose of allowing small wastewater companies to save time and expense in the processing of rate applications. Pursuant to the Commission's determinations in this proceeding, the approved revenue increase does not exceed \$39,488. Based on this fact, taken into consideration with the unique size of the applicant, the Commission finds that the rate

case expense of \$15,000 is more reasonable than the requested \$27,059 and, therefore, should be adopted.

RATE BASE

The rate base represents the net value of the Applicant's property and other assets as the date certain, December 31, 2010, that was used and useful in providing service to the public. The Staff's analysis of rate base is divided into Plant in Service, Depreciation, Construction Work in Progress, Working Capital, and Other Rate Base items.

The Village objects to Staff's calculation of the jurisdictional rate base to the extent that other objections have an impact on the calculation (Village Objection at 3).

Based on the findings above, the following table presents, in summary form, the Commission's determination of the applicable rate base through May 27, 2012:

Plant in Service	\$	103,898
Less: Depreciation Reserve		<u>12,753</u>
Net Plant in Service		91,145
Less: Construction Work in Progress		0
Working Capital Allowance		\$20,776
Less: Other Rate Base Items		<u>0</u>
Jurisdictional Rate Base		111,921

The applicable rate base as of May 28, 2013, December 2, 2014, and May 2019, are reflected on the attached schedules. The Commission finds these jurisdictional rate bases to be reasonable and proper and, therefore, adopts the applicable valuations for purposes of this proceeding.

RATE-OF-RETURN

In the Staff Report, Staff recommends that, under the prevailing interest rates and general economic conditions, a rate-of-return in the range of 9.5 percent to 10.5 percent would be fair and reasonable (Staff Ex. 1 at 8; Staff Ex. 4, at 5, 6). Staff asserts that, due to the fact that it is not possible to perform a meaningful cost of capital analysis for a small utility whose stock is not publicly traded, the recommended rate-of-return is not based on any particular capital structure but, instead, is premised on a generic rate-of-return for all companies of this size. Additionally, Staff recognizes that very small, privately-owned companies, such as the applicant, have difficulty seeking capital. (*Id.* at 5.)

While the applicant does not object to this rate-of-return, Richfield specifically objects to the proposed rate-of-return and believes that a less "generic" approach should be utilized in establishing a rate-of-return in this case due to "the dire facts" of this case (Village Br. at 3). Instead, the Village believes that the overall rate-of-return should be more consistent with the overall rate-of-return that would be more typical for regulated water companies. Specifically, the Village proposes a return of 8.0 percent should be used to establish a return on rate base. (Village Objection at 3.) While recognizing that the applicant's capital structure consists of 100 percent equity, Richfield submits that its recommendation is consistent with a capital structure consisting of 50 to 60 percent equity with a cost of equity in the 9.5 to 10.5 percent range and a cost of debt in the 5.5 to 6.5 range (*Id.*). As further support for its recommended rate-of-return, Richfield asserts that its proposed reduction in rate-of-return is justified under Section 4909.15 *et seq.* (*Id.* at 4). In response to the Village's objection, the applicant states that the use of a generic rate-of-return in the case of Water and Sewer, whose capital structure is all equity, likely understates the rate-of-return requirement (Applicant Br. at 36 citing May 10, 2012, Tr. 187-189).

Upon a review of the record in this case, the Commission will adopt the midpoint of Staff's rate-of-return range. The Commission is of the opinion that a rate-of-return of 10.0 percent is sufficient to provide the applicant with reasonable compensation for the sewage disposal service it renders customers affected by this proceeding. In reaching this determination, the Commission has considered the size of the applicant, its financial condition, and its ability to attract new capital at reasonable costs.

AUTHORIZED INCREASE

A rate-of-return of 10.0 percent applied to the jurisdictional rate base of \$111,921 results in an allowable revenue of \$141,294 through May 27, 2013. Certain expenses must be adjusted if the gross revenues authorized are to produce this dollar return. These adjustments, which have been calculated in a manner consistent with the analysis of accounts accepted herein, result in an increase in federal income taxes of \$5,580 and an increase in Ohio franchise tax of \$616. Adding the approved dollar return to the adjusted allowable expenses of \$123,906 produces a finding that applicant is entitled to place rates in effect which will generate \$141,294 in total gross annual operating revenue. This represents an increase of \$38,426 over the total revenues which would be realized under the applicant's present rate schedules; an increase of 37.35 percent. These calculations are reflected on the attached schedules.

The Commission notes that the approved percentage increases beginning May 28, 2013, December 2, 2014, and May 28, 2019, are reflected on the attached schedules.

REVENUE REQUIREMENT

In the Staff Report, Staff recommends that the applicant be granted a revenue increase in the range of \$32,198 to \$33,539 (Staff Ex. 1 at 19). Staff does not support a phase-in plan relative to the proposed increase in the revenue requirement. In support of its position, Staff explains that since current customer rates are already extremely high, "[a] phase-in will only cost the customer more in the near term than Staff's recommended revenue increase shown on Schedule A-1 and will not mitigate rate shock" (Staff Ex. 4 at 3).

The Village identifies four specific objections regarding the revenue requirement. First, it objects to the calculation of the revenue requirement to the extent that other objections have an impact on this calculation (Richfield Objection at 1). Second, Richfield objects to Staff's calculation of the revenue requirement set forth in Schedule A-1 of the Staff Report, in that it will result in rate shock and is contrary to Commission policy (*Id.* at 2). Third, the Village objects to the Staff's calculation of the revenue requirement in that it includes the total cost of Water and Sewer's 2010 road repair in the amount of \$4,500, as a general plant operation and maintenance expense. In particular, Richfield submits that road repair is not a recurring expense and, therefore, it should be amortized over a four-year period. In particular, Richfield proposes that the \$4,500 expense be amortized over a four-year period consistent with the treatment of similar road repair in the company's 2008 rate case. Fourth, Richfield objects to Water and Sewer's carryover of three separate amortizations which were carried over from the company's prior rate cases in 03-318 and 08-227. (Richfield Objection at 2, 3.)

While recognizing the potential issue of rate shock resulting from the approved rates in this and the possible use of a phase-in mechanism to address this concern, the Commission finds that pursuant to *Columbus Southern Power Co., v. Pub. Util. Comm.*, 67 Ohio 3d 535 (1993), it is unlawful for the Commission to unilaterally impose a mandatory phase-in of authorized rates. Additionally, as noted by the Staff, a phase-in approach will only result in costing the customer more than the Staff's recommended revenue increase and will not mitigate rate shock (Staff Ex. 4 at 3). Rather, to address the concern of high rates, the Commission, as discussed in this Order, has attempted to take the appropriate steps to alleviate the burden of such rates in the future.

With respect to the Village's concern regarding inclusion of the 2010 road repair expense of \$4,500, the record now reflects that no such road repair expense exists and this expense has not been included in General Plant (Staff Ex. 3 at 4). In regard to Richfield's objection to Water and Sewer's carryover of three separate amortizations which were carried over from the company's prior rate cases in 03-318 and 08-227, these concerns are addressed in our discussion of Operating Income, *supra*.

To the extent that the applicant does not transfer its operations within the time frame contemplated in this Opinion and Order, the applicable revenue requirements beginning in May 28, 2013, December 2, 2014, and May 28, 2019, respectively, are reflected in the schedules attached to this Opinion and Order.

PUBLIC POLICY

While the Commission has carefully considered the record in this case for the purposes of exercising its statutory authority pursuant to Section 4909.18, Revised Code, the Commission agrees with Staff's determination that the existing financial structure of the company's operations is no longer sustainable or viable in its present form as evidenced by the fact that current annual rates are approximately 159 percent higher than the average annual residential sewer rate in the state of Ohio (See Staff Ex. 4 at 4). This pattern of the requests for additional rate increases will likely continue absent a change in the manner in which sewage disposal service is provided to the applicant's customer base. Additionally, the Commission notes that the system in question was constructed for a much larger customer base than the one it is currently serving (April 11, 2012, Tr. 11, 12).

Relative to the issue of a change in existing operating structure, the Commission recognizes that Water and Sewer and Richfield have commenced discussions for the purpose of transferring the provision of sewer service from the applicant to the Village. Specifically, the Commission points to the Joint Stipulation of Intent entered into by Water and Sewer and Richfield (Joint Ex. 1) in which the applicant and the Village jointly recognize that the rates charged by Water and Sewer are significantly higher than the average of the rates charged by other sewer utilities in the state of Ohio. Further, Water and Sewer and Richfield agree that, despite prior substantial rate increases, Water and Sewer has continued to incur significant annual operating losses and that any further rate increases will exacerbate the hardship that Water and Sewer's current rates already pose for many of its customers (*Id.* at 1). As a result, Water and Sewer and Richfield "commit to working cooperatively to formulate a plan that will permit Water and Sewer to exit the sewer business and a different sewer service provider, presumably Richfield, to assume responsibility for providing sewer service to Water and Sewer's customers at the earliest convenience." (*Id.*).

As noted in the Joint Stipulation and the testimony of Richfield witness AbouAbdallah, Richfield has already undertaken studies regarding connecting Water and Sewer's collection system to the facilities of a different provider of sewage disposal service (*Id.* at 2; May 10, 2012, Tr. 53-76, 81, 82). The applicant and the Village have agreed to begin meeting to discuss the costs and feasibility of accomplishing the stated objective of connecting Water and Sewer's collection system to the facilities of a different provider of sewage disposal service (Joint Ex. 1 at 2). Under the scenario being considered, Water and Sewer would transfer its collection system to Richfield. The Village would construct the

necessary pumping stations and force main sanitary sewer line. The ultimate treatment facilities would be provided by the Northeast Ohio Regional Sewer District. (May 10, 2012, Tr. 55-67; Joint Ex. 1.)

Consistent with the concerns set forth in this Opinion and Order *supra*, the Commission determines that it is in the public interest for the applicant and the Village to continue their collaborative efforts for ensuring that Water and Sewer exit the sewer business and transfer control of service to a different sewer service provider. In order for the Commission to monitor this effort, Water and Sewer must provide Staff with monthly updates as to their progress in accomplishing this result. It is the Commission's expectation that, in the near future, Water and Sewer will be ceasing its provision of sewer service and, therefore, will not file any future applications for rate increases. An application for the substitution of service should be filed no later than December 2013. This time frame is supported by witness AbouAbdallah's estimation that the construction of new facilities and the transference of service could be completed between the third quarter and the end of 2013 (May 10, 2012, Tr. 70, 71).

Based on the record in this case, it is clear that the ultimate transference of service will be in the public interest and will result in lower sewer costs for customers of Water and Sewer. In particular, the Commission notes that it is expected that upon Richfield assuming responsibility for the provision of sewer service, most, if not all, of Water and Sewer's existing customers, all of which are currently are billed on a flat-rate basis and pay \$1,330.14 annually, will become metered sewer customers and, based on existing rates, would be charged approximately \$108 per quarter or \$433 per year. (*Id.* at 79, 85, 86.) These rates are significantly more in line with the state of Ohio average of \$514 as reflected in the 2009 Ohio EPA Sewer and Water Rate Survey (Staff Ex. 4 at 4). This reduction in rates will potentially assist in reducing the growing problem of customers being unable to pay their bills and the costly exercise of attempting to collect from the delinquent customers (May 10, 2012, Tr. 35-37).

RATES AND TARIFFS

(a) Removal of Water Service References in the Tariff

Staff recommends that references in Section 4, Sheet No. 3, Item 9 and Section 4, Sheet 5, Item D to water service be removed (Staff Ex. 1 at 9). Additionally, Staff recommends that a Subject Index be provided with an effective date column for each page (*Id.*). The record reflects that the applicant did not object to Staff's proposal. The Commission finds that the Staff request is reasonable and should be approved.

(b) Compliance With Rule 4901:1-15-15(A)(7), O.A.C.

Consistent with Rule 4901:1-15-15(A)(7), O.A.C., Staff requests that the company include within the actual tariff, and not as an appendix, a copy of each type of application-for-service form used by the company (*Id.* at 10). The record reflects that the applicant did not object to Staff's proposal. The Commission finds that the Staff request is reasonable and should be approved.

(c) Access to Customer Premise

Staff requests that the language contained in Section 3, Sheet 2, Item 5 be rewritten to in order to be shorter and clearer in meaning (*Id.* at 10). The record reflects that the applicant did not object to Staff's proposal. The Commission finds that the Staff request is reasonable and should be approved.

(d) Notification of Customer Rights

Staff requests that in the applicant's Notification of Customer Rights, Complaint Section, the instructions regarding how to contact the Commission and the Ohio Consumers' Counsel (OCC) be amended consistent with Case No. 11-4910-AU-ORD (11-4910), *In the Matter of the Amendment of Certain Rules of the Ohio Administrative Code to Implement Section 4911.021, Revised Code (Id.)*. Further, Staff requests that in the Disconnection of Service Section, Subsection B, consistent with Rule 4901:1-15-27(B)(2)(b), O.A.C., the applicant should add language regarding personal delivery of the notice to the customer's premise (*Id.*). Additionally, in the Disconnection of Service Section Subsection D, Staff recommends that the applicant modify the subsection header to replicate the language in Rule 4901:1-15-27(C), O.A.C. (*Id.*). The record reflects that the applicant did not object to Staff's proposal. The Commission finds that the Staff request is reasonable and should be approved.

(e) Bill Format

Consistent with its recommendation concerning the Notification of Customer Rights, Staff recommends that the applicant revise the instructions on its customer bill concerning how the customer can contact the Commission and the OCC (*Id.* at 11). The record reflects that the applicant did not object to Staff's proposal. The Commission finds that the Staff request is reasonable and should be approved. The Commission notes that the applicant has filed a motion for a waiver in 11-4910 requesting a waiver of the requirement to amend its bill format until it has exhausted its current bill stock (See May 10, 2012, Tr. 94). In accordance with our ruling in 11-4910, the applicant will not have to actually reformat its bill until such time that it has exhausted its existing bill stock.

(f) Late Payment Charge

Staff agrees with the applicant's policy of applying a late payment charge of 1.5 percent, based on current charges only. The late payment charge is not compounded on future delinquencies and is not imposed during any billing period in which payments made exceed the customer's current charges (Staff Ex. 1 at 11). The Commission finds that the Staff request is reasonable and should be approved.

(g) Dishonored Check Charge

Staff believes that a dishonored payment charge is appropriate and should reflect the actual costs incurred by the applicant to process such payments. Specifically, Staff believes that it is reasonable to continue the current \$35 dishonored payment charge. (*Id.*) The Commission finds that the Staff request is reasonable and should be approved.

(h) Reconnection/Disconnection Charge

Staff identifies the inability of the applicant to disconnect condominium customers for nonpayment without interrupting service to residents of other adjacent units. As a result, the only recourse for the applicant to pursue is civil collection actions against the delinquent customer while continuing to provide service. Staff recognizes this has become a significant issue due to the fact that the legal costs associated with prosecuting collection actions are prohibitive. As a result, Staff notes that delinquent customers have little or no incentive to pay and, therefore, have run up substantial outstanding balances. Staff also recognizes that the costs of collection actions are borne by the remaining customer base, which is small in number. (*Id.* at 11, 12.)

To help address the identified concerns regarding the reconnection/disconnection issue, Staff recommends that the condominium association become the customer and put the sewer bill in the association fees (*Id.* at 12). Specifically, while recognizing that it has no jurisdiction over the condominium association, Staff points out there is nothing preventing Water and Sewer from approaching the condominium association and trying to reach a resolution on their own accord (Staff Ex. 2 at 3). Another recommended remedy is to change the rate design as discussed *infra*.

While the applicant appreciates Staff's recognition of the problem regarding the difficulty of disconnecting customers residing in multi-unit condominiums, it points out that the Commission does not have jurisdiction over arrangements between a condominium association and its members (Applicant Objection at 7).

The Commission agrees that it does not have the requisite jurisdiction to enforce such a requirement. Instead, to the extent that it would be helpful, the applicant is

encouraged to explore the possibility of the condominium association becoming the customer and the sewer bill becoming part of the association fees.

(i) Rate Design

In response to the concerns raised by the applicant regarding the loss of revenues due to its inability to disconnect, Staff suggests the possibility of an additional rate option that takes into effect no usage (Staff Ex. 1 at 15). Staff explains that this option is intended to address people who have vacated their homes and have stopped making payments. According to Staff, a lower "no usage" rate might entice this group of customers to pay their bill in order to avoid a marred credit record or other circumstances. (Staff Ex. 2 at 4.) Staff, opines that this option would allow the applicant to recover some infrastructure costs, but be greater than a customer charge, which is designed to be minimally compensatory/billing related (Staff Ex. 1 at 15). The applicant questions how the inclusion of a "no usage" component will create an incentive for customers to pay their bills in a timely manner (Applicant Objection at 7). The Commission points out that Staff's proposed "no usage" rate was simply a suggestion. The applicant does not have to offer such a rate if it chooses not to do so.

Staff also notes that in 08-227, a fixed, flat-rate for sewer service was authorized for sewer service. Additionally, pursuant to 08-227, a Rate Structure Collaborative was convened in December 2010 to discuss the design of the rate for sewer service provided by the applicant. The collaborative consisted of the mayor and law director of the Village and representatives from the applicant, OCC, and Staff. Specifically, the collaborative focused on whether the company should continue to charge the fixed, flat-rate for sewer service or, instead, implement a volumetric rate based on the customer's water consumption. According to the Staff, the collaborative concluded that the applicant should retain the current rate design. In reaching its decision, the collaborative recognized that the additional cost of obtaining water usage data would tend to reduce the number of customers that might otherwise benefit from a usage-based rate. (Staff Ex. 1 at 14, 15.) The Commission determines that, based on the results of the collaborative, the applicant should continue with its fixed, flat-rate sewer service.

Relative to the issue of whether the effective date of any increase resulting from this proceeding should be on a bills rendered or service rendered basis, Staff believes that increases should be prorated on a service rendered basis rather than a bills rendered basis as advocated by the applicant (Staff Ex. 2 at 4). Specifically, Staff posits that the bill would reflect the old rate for the number of days that it was in effect and the new rate for the number of days that it was in effect (*Id.*). The applicant does not object this recommendation. The Commission finds that the Staff request is reasonable and should be approved.

(j) Customer Charge

Staff explains that the current customer charge was developed when the applicant provided both water and sewer services and had metered usage. Staff concludes that with the retention of a flat-rate rate structure there is no purpose served by having a customer charge. Therefore, Staff recommends that Commission approve a rate design consisting of a single, flat-rate charge to recover all costs without the need to break down the bill to include a separate customer charge. (Staff Ex. 1 at 15.) The applicant supports Staff's recommendation that the customer charge and flat-rate charge be consolidated into a single bi-monthly flat-rate charge (Applicant Objection at 7). The Commission finds that the Staff request is reasonable and should be approved.

(k) Effective Date and Required Filings

At the time of hearing, the applicant introduced a set of proposed revised tariff sheets and appendices (Applicant Ex. 6) intended to address all of the issues and concerns identified in the Rates and Tariff section of the Staff Report with the exception the actual rates and the effective dates (May 10, 2012, Tr. 90, 91). Staff indicated that the revised tariff sheets and appendices satisfactorily address all of the concerns identified in the Rates and Tariff section of the Staff Report with the exception of the actual rates and effective date. Therefore, with the exception of the rates established in this Opinion and Order, the submitted revised tariff sheets are approved and there is no need for a separate order approving the compliance tariff.

Water and Sewer is directed to file final tariffs incorporating the approved provisions and the current new rates resulting from the determinations set forth in this order. The filing should occur 31 days prior to the intended effective date. Unless otherwise ordered by the Commission the revised tariff sheets shall be considered approved on the 31st day following the filing. The same process should be utilized for the rate sheet filings that, consistent with this Opinion and Order are to become effective on May 28, 2013, December 2, 2014, and May 28, 2019, respectively.

Additionally, the applicant should submit proposed customer notices to the Commission when it files its tariffs for approval. The notices should be deemed automatically approved unless suspended by the Commission. The notices should be mailed to the customers on or before the first bill reflecting the approved increase.

FINDINGS OF FACT:

- (1) On July 27, 2011, Water and Sewer filed a notice of intent to file an application for an increase in rates.

- (2) On September 23, 2011, Water and Sewer filed an abbreviated application for an increase in rates. In that application, the company requested a test year beginning January 1, 2010, and ending December 31, 2010.
- (3) By Commission Entry of November 9, 2011, the application was accepted for filing as September 23, 2011.
- (4) On February 22, 2012, Staff filed its written report of investigation.
- (5) Richfield was granted intervention pursuant to the attorney examiner Entry of February 24, 2012.
- (6) On March 23, 2012, objections to the Staff Report were filed by the applicant and Richfield, respectively.
- (7) The local hearing was held on April 11, 2012, in Richfield, Ohio. A total of six witnesses gave testimony at the local hearing.
- (8) The evidentiary hearing was commenced on April 17, 2012, at the offices of the Commission. At the request of the parties, the hearing was continued for the purpose of attempting to resolve the disputed issues in this proceeding. The hearing was continued on May 10, 2012, pursuant to the attorney examiner Entry of May 3, 2012.
- (9) On May 10, 2012, the applicant submitted proofs of publication of the local and evidentiary hearing.
- (10) The value of all of the applicant's property used and useful for the rendition of sewer service to the customers affected by this application, determined in accordance with Section 4909.15, Revised Code, as of the date certain of December 31, 2010, is \$111,921.
- (11) Beginning May 28, 2013, the value of all of the applicant's property used and useful for rendition of sewer service to customers affected by this application, determined in accordance with Section 4909.15, Revised Code, as the date certain of December 31, 2010, is \$111,300.
- (12) Beginning December 2, 2014, the value of all of the applicant's property used and useful for rendition of sewer service to

customers affected by this application, determined in accordance with Section 4909.15, Revised Code, as the date certain of December 31, 2010, is \$111,119.

- (13) Beginning May 28, 2019, the value of all of the applicant's property used and useful for rendition of sewer service to customers affected by this application, determined in accordance with Section 4909.15, Revised Code, as the date certain of December 31, 2010, is \$110,703.
- (14) For the 12-month period ending December 31, 2010, the test period in this proceeding, the revenues, expenses, and net operating income available for fixed charges realized by the applicant under its present rate schedules were \$102,868 \$124,775, and \$(21,038), respectively. This net annual compensation of \$(21,038) represents a rate-of-return of (18.80) percent on the jurisdictional rate base of \$111,921. A rate-of-return of (18.80) percent is insufficient to provide applicant reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to the rate base of \$111,921 will result in income available for fixed charges in the amount of \$11,192 through May 27, 2013. The allowable annual expenses of the company for the purposes of this proceeding are \$130,102 through May 27, 2013. The allowable gross annual revenue to which the applicant is entitled for the purposes of this proceeding through May 27, 2013, is \$141,294.
- (15) Beginning on May 28, 2013, through December 1, 2014, the revenues, expenses, and net operating income available for fixed charges realized by applicant under its present rate schedules are \$102,868, \$120,736, and \$(17,868), respectively. This net annual compensation of \$(17,868) represents a rate-of-return of (16.05) percent on the jurisdictional rate base of \$111,300. A rate-of-return of (16.05) percent is insufficient to provide applicant reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to the rate base of \$111,300 will result in income available for fixed charges in the amount of \$11,130 through December 1, 2014. The allowable annual expenses of the company for the purposes of this proceeding are \$126,357 through December 1, 2014. The allowable gross annual revenue to which the applicant is entitled for the

purposes of this proceeding through December 1, 2014, is \$137,487.

- (16) Beginning on December 2, 2014, through May 27, 2019, the revenues, expenses, and net operating income available for fixed charges realized by applicant under its present rate schedules are \$102,686, \$119,816, and \$(16,948), respectively. This net annual compensation of \$(16,948) represents a rate-of-return of (15.25) percent on the jurisdictional rate base of \$111,119. A rate-of-return of (15.25) percent is insufficient to provide applicant reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to the rate base of \$111,119 will result in income available for fixed charges in the amount of \$11,112 through May 27, 2019. The allowable annual expenses of the company for the purposes of this proceeding are \$125,272 through December 1, 2014. The allowable gross annual revenue to which the applicant is entitled for the purposes of this proceeding through May 27, 2019 is \$136,382.
- (17) Beginning on May 28, 2019, the revenues, expenses, and net operating income available for fixed charges realized by applicant under its present rate schedules are \$102,868, \$117,691, and \$(14,823), respectively. This net annual compensation of \$(14,823) represents a rate-of-return of (13.39) percent on the jurisdictional rate base of \$110,703. A rate-of-return of (13.39) percent is insufficient to provide applicant reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to the rate base of \$110,703 will result in income available for fixed charges in the amount of \$11,071 beginning May 28, 2019. The allowable annual expenses of the company for the purposes of this proceeding are \$122,761 beginning May 28, 2019. The allowable gross annual revenue to which the applicant is entitled for the purposes of this proceeding beginning May 28, 2019, is \$133,831.

CONCLUSIONS OF LAW:

- (1) The application in this case was filed pursuant to, and this Commission has jurisdiction thereof, under the provisions of Sections 4909.17, 4909.18, and 4909.19, Revised Code. Further,

the applicant has complied with the requirements of those statutes.

- (2) A Staff investigation was conducted and a report duly filed and mailed, and public hearings have been held in this case, the written notice of which complied with the requirements of Sections 4909.19 and 4903.083, Revised Code.
- (3) The existing rates and charges as set forth in the tariffs governing sewer service to customers affected by this application are insufficient to provide applicant with adequate net annual compensation and return on its property used and useful in the rendition of sewer service.
- (4) A rate-of-return of ten percent is fair and reasonable under the circumstances of this case and is sufficient to provide applicant just compensation and return on its property used and useful in the rendition of electric service to its customers.
- (5) The tariff sheets included in Applicant Ex. 6 are approved.
- (6) Applicant is authorized to file tariffs reflecting the new rates consistent with the discussion and findings set forth above.

ORDER:

It is, therefore,

ORDERED, That the application of Water and Sewer for authority to increase its rates and charges for sewer services be granted to the extent provided in this Opinion and Order. It is, further,

ORDERED, That the tariff pages submitted at the time of hearing as Applicant Ex. 6 are approved. It is further,

ORDERED, That, consistent with this Opinion and Order, the applicant file in this docket, revised tariff pages, including those related to rate revisions addressed in this Opinion and Order. It is, further,

ORDERED, That, upon approval, the applicant is authorized to file in final form, four complete copies of tariffs consistent with the findings of this Opinion and Order, including those that incorporate the rates approved in this proceeding. The applicant shall file one copy in its TRF docket number, 89-7045-ST-TRF (or may make such filing electronically as directed in Case No. 06-900-AU-WVR) and one copy in this case docket.

The remaining two copies shall be designated for distribution to the Rates and Tariffs, Energy and Water Division of the Commission's Utilities Department. It is, further,

ORDERED, That, consistent with this Opinion and Order, the applicant file the requisite revised rate tariff sheets upon the future completion of the amortizations on May 27, 2013, December 2, 2014, and May 28, 2019, respectively. It is, further,

ORDERED, That the applicant shall file proposed customer notices with the Commission when it docket its tariffs for approval. The notices will be considered automatically approved unless suspended by the Commission. The notices should be mailed to the customers on or before the first bill reflecting the approved increase. It is, further,

ORDERED, That the applicant provide monthly updates consistent with this Opinion and Order. It is, further,

ORDERED, That the applicant comply with all Commission directives set forth in this Opinion and Order. It is, further,

ORDERED, That all objections not specifically discussed in this Opinion and Order, are denied. It is, further,

ORDERED, That a copy of this Opinion and Order be served upon all parties of record and interested persons of record.

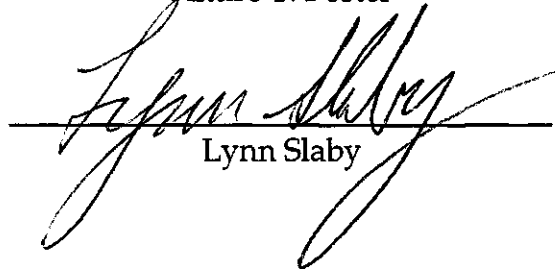
THE PUBLIC UTILITIES COMMISSION OF OHIO


Todd A. Snitchler, Chairman


Steven D. Lesser


Andre T. Porter



Cheryl L. Roberto


Lynn Slaby

JSA/vrm

Entered in the Journal

AUG 15 2012


Barcy F. McNeal

Barcy F. McNeal
Secretary

August 15, 2012 - May 27, 2013

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

		Lower Bound	Upper Bound
(1) Rate Base (a)	\$	111,921	\$ 111,921
(2) Adjusted Operating Income (b)		(21,038)	(21,038)
(3) Rate of Return Earned (2) / (1)		-18.80%	-18.80%
(4) Rate of Return Recommended (c)		10.00%	10.00%
(5) Required Operating Income (1) x (4)		11,192	11,192
(6) Income Deficiency (5) - (2)		32,230	32,230
(7) Gross Revenue Conversion Factor (d)		1.192226	1.192226
(8) Revenue Increase Required (6) x (7)		38,426	38,426
(9) Revenue Increase Recommended		38,426	38,426
(10) Adjusted Operating Revenue (b)		102,868	102,868
(11) Revenue Requirements (9) + (10)	\$	141,294	\$ 141,294
(12) Increase Over Current Revenue (9) / (10)		37.35%	37.35%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

August 15, 2012 - May 27, 2013

SCHEDULE A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.601900% (a)	<u>1.601900</u>
(3) Net Revenue (1) - (2)	98.398100
(4) Federal Income Taxes (3) x 14.757800% (b)	<u>14.521395</u>
(5) Operating Income Percentage (3) - (4)	83.876705
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.192226</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$	616
(2) Staff's Recommended Revenue Increase (Schedule A-1)		38,426
(3) Uncollectibles		<u> </u>
(4) Net Revenue Increase		38,426
Effective Ohio Franchise Tax Rate (1) / (4)		<u><u>1.601900%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$	38,426
(2) Increase in Franchise Tax		<u>616</u>
(3) Net Revenue Increase (1) - (2)		37,810
(4) Increase in Federal Income Taxes		<u>5,580</u>
(5) Effective FIT Rate (4) / (3)		<u><u>14.757800%</u></u>

August 15, 2012 - May 27, 2013

SCHEDULE B-1

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010**

(1)	Plant in Service (a)	\$	103,898
(2)	Depreciation Reserve (b)		<u>12,753</u>
(3)	Net Plant in Service (1) - (2)		91,145
(4)	Construction Work in Progress (c)		
(5)	Working Capital Allowance (d)		20,776
(6)	Other Rate Base Items (e)		<u> </u>
(7)	Rate Base (3) Thru (6)	\$	<u><u>111,921</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

August 15, 2012 - May 27, 2013

SCHEDULE B-5

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance**

(1)	Operation & Maintenance Expense (a)	\$	125,343
(2)	Expense Lag Dollars (1) / 6		20,890
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>20,776</u></u>

- (a) O&O Schedule C-2
- (b) Applicant Does Not Maintain M & S Inventory
- (c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

August 15, 2012 - May 27, 2013

SCHEDULE C-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 38,259	\$ 140,680
Late Fee Revenue	447	167	614
Total Operating Revenues	102,868	38,426	141,294
<u>Operating Expenses</u>			
Operation and Maintenance	125,343		125,343
Depreciation	1,828		1,828
Taxes, Other Than Income	458	616	1,073
Federal Income Taxes	(3,722)	5,580	1,858
Total Operating Expenses	123,906	6,196	130,102
Net Operating Income	\$ <u>(21,038)</u>	\$ <u>32,230</u>	\$ <u>11,192</u>
Rate Base (d)	\$ <u>111,921</u>		\$ <u>111,921</u>
Rate of Return (e)	<u>-18.80%</u>		<u>10.00%</u>

- (a) O&O Schedule C-2
- (b) O&O Schedule C-1.1
- (c) Columns (a) + (b)
- (d) O&O Schedule B-1
- (e) Net Operating Income / Rate Base

August 15, 2012 - May 27, 2013

SCHEDULE C-1.1

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments**

(1) Proposed Revenue Increase (a)	\$ 38,259
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>167</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u><u>38,426</u></u>
(4) Ohio Franchise Tax (b)	\$ <u><u>616</u></u>
(5) Federal Income Tax (b)	\$ <u><u>5,580</u></u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

August 15, 2012 - May 27, 2013

SCHEDULE C-2

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(58,322)	125,343
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(3,722)	(3,722)
Total Operating Expenses	190,191	(66,285)	123,906
Net Operating Income	\$ <u>(91,839)</u>	\$ <u>70,801</u>	\$ <u>(21,038)</u>

- (a) Applicant's General Ledgers
- (b) O&O Schedule C-3
- (c) Columns (a) + (b)

August 15, 2012 - May 27, 2013

SCHEDULE C-3

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u><u>4,516</u></u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	7,312
C-3.7	Insurance Expense	(17,512)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(58,322)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(3,722)</u>
	Total Expense Adjustments	\$ <u><u>(66,285)</u></u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

August 15, 2012 - May 27, 2013

SCHEDULE C-3.6a

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment

	<u>Case Number</u>	<u>Amort. Period</u>	<u>Start Date</u>	<u>Finish Date</u>	<u>Annual Allocation</u>
(1) Sludge - Major	03-318-WS-AIR	10	12/01/04	12/01/14	\$ 712
(2) Sludge - Management	03-318-WS-AIR	10	12/01/04	12/01/14	370
(3) Sludge - Emergency	08-227-WS-AIR	10	05/27/09	05/27/19	2,500
(4) Road Repair	08-227-WS-AIR	4	05/27/09	05/27/13	<u>3,730</u>
Total (1) - (4)					\$ <u><u>7,312</u></u>

August 15, 2012 - May 27, 2013

SCHEDULE C-3.7

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

(1) Adjusted Insurance Expense (a)	\$ 7,654
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u><u>(17,512)</u></u>

- (a) Commercial Policy (\$13,157 less \$3,048 Water Plant Refund = \$10,109.04 / 2 = \$5,054.52)
Pollution Policy (\$5,199.36 / 2 = \$2,599.68)
- (b) Applicant's 2010 PUCO Annual Report

August 15, 2012 - May 27, 2013

SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(3,722)
(2)	Test Year Federal Income Tax (b)		<hr/>
(3)	Adjustment (1) - (2)	\$	<u><u>(3,722)</u></u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (24,760)	\$ 13,050
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(24,760)	13,050
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		666
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	666
(13) Federal Taxable Income (1) + (12)	(24,810)	12,385
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(3,722)	1,858
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(3,722)	1,858
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(3,722)	1,858
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.76%		
(26) Total Federal Income Taxes (21) + (25)	\$ (3,722)	\$ 1,858

May 28, 2013 - December 1, 2014

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

	Lower Bound	Upper Bound
(1) Rate Base (a)	\$ 111,300	\$ 111,300
(2) Adjusted Operating Income (b)	(17,868)	(17,868)
(3) Rate of Return Earned (2) / (1)	-16.05%	-16.05%
(4) Rate of Return Recommended (c)	10.00%	10.00%
(5) Required Operating Income (1) x (4)	11,130	11,130
(6) Income Deficiency (5) - (2)	28,998	28,998
(7) Gross Revenue Conversion Factor (d)	1.193845	1.193845
(8) Revenue Increase Required (6) x (7)	34,619	34,619
(9) Revenue Increase Recommended	34,619	34,619
(10) Adjusted Operating Revenue (b)	102,868	102,868
(11) Revenue Requirements (9) + (10)	\$ 137,487	\$ 137,487
(12) Increase Over Current Revenue (9) / (10)	33.65%	33.65%

(a) O&O Schedule B-1

(b) O&O Schedule C-2

(c) Refer to Rate of Return Section

(d) O&O Schedule A-1.1

May 28, 2013 - December 1, 2014

SCHEDULE A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.767400% (a)	<u>1.767400</u>
(3) Net Revenue (1) - (2)	98.232600
(4) Federal Income Taxes (3) x 14.7300% (b)	<u>14.469662</u>
(5) Operating Income Percentage (3) - (4)	83.762938
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.193845</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$	612
(2) Staff's Recommended Revenue Increase (Schedule A-1)		34,619
(3) Uncollectibles		<u>34,619</u>
(4) Net Revenue Increase		34,619
Effective Ohio Franchise Tax Rate (1) / (4)		<u><u>1.767400%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$	34,619
(2) Increase in Franchise Tax		<u>612</u>
(3) Net Revenue Increase (1) - (2)		34,007
(4) Increase in Federal Income Taxes		<u>5,009</u>
(5) Effective FIT Rate (4) / (3)		<u><u>14.7300%</u></u>

May 28, 2013 - December 1, 2014

SCHEDULE B-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010

(1)	Plant in Service (a)	\$	103,898
(2)	Depreciation Reserve (b)		<u>12,753</u>
(3)	Net Plant in Service (1) - (2)		91,145
(4)	Construction Work in Progress (c)		
(5)	Working Capital Allowance (d)		20,155
(6)	Other Rate Base Items (e)		<u></u>
(7)	Rate Base (3) Thru (6)	\$	<u><u>111,300</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

May 28, 2013 - December 1, 2014

SCHEDULE B-5

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance

(1)	Operation & Maintenance Expense (a)	\$	121,613
(2)	Expense Lag Dollars (1) / 6		20,269
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>20,155</u></u>

- (a) O&O Schedule C-2
- (b) Applicant Does Not Maintain M & S Inventory
- (c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	<u>Opinion and Order</u>		
	<u>Adjusted Revenues & Expenses</u>	<u>Proforma Adjustments</u>	<u>Proforma Revenues & Expenses</u>
	(a)	(b)	(c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 34,469	\$ 136,890
Late Fee Revenue	<u>447</u>	<u>150</u>	<u>597</u>
Total Operating Revenues	102,868	34,619	137,487
<u>Operating Expenses</u>			
Operation and Maintenance	121,613		121,613
Depreciation	1,828		1,828
Taxes, Other Than Income	458	612	1,069
Federal Income Taxes	<u>(3,162)</u>	<u>5,009</u>	<u>1,847</u>
Total Operating Expenses	120,736	5,621	126,357
Net Operating Income	\$ <u>(17,868)</u>	\$ <u>28,998</u>	\$ <u>11,130</u>
Rate Base (d)	\$ <u>111,300</u>		\$ <u>111,300</u>
Rate of Return (e)	<u>-16.05%</u>		<u>10.00%</u>

- (a) O&O Schedule C-2
 (b) O&O Schedule C-1.1
 (c) Columns (a) + (b)
 (d) O&O Schedule B-1
 (e) Net Operating Income / Rate Base

May 28, 2013 - December 1, 2014

SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$	34,469
(2) Late Payment Revenue (1) x 0.435977% (a)		<u>150</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$	<u>34,619</u>
(4) Ohio Franchise Tax (b)	\$	<u>612</u>
(5) Federal Income Tax (b)	\$	<u>5,009</u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

May 28, 2013 - December 1, 2014

SCHEDULE C-2

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(62,052)	121,613
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(3,162)	(3,162)
Total Operating Expenses	190,191	(69,455)	120,736
Net Operating Income	\$ <u>(91,839)</u>	\$ <u>73,971</u>	\$ <u>(17,868)</u>

- (a) Applicant's General Ledgers
- (b) O&O Schedule C-3
- (c) Columns (a) + (b)

May 28, 2013 - December 1, 2014

SCHEDULE C-3

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	447
Total Revenue Adjustments		<u>\$ 4,516</u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	3,582
C-3.7	Insurance Expense	(17,512)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	584
Total O & M Expenses		(62,052)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	(3,162)
Total Expense Adjustments		<u>\$ (69,455)</u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

May 28, 2013 - December 1, 2014

SCHEDULE C-3.6a

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment

	<u>Case Number</u>	<u>Amort. Period</u>	<u>Start Date</u>	<u>Finish Date</u>	<u>Annual Allocation</u>
(1) Sludge - Major	03-318-WS-AIR	10	12/01/04	12/01/14	\$ 712
(2) Sludge - Management	03-318-WS-AIR	10	12/01/04	12/01/14	370
(3) Sludge - Emergency	08-227-WS-AIR	10	05/27/09	05/27/19	<u>2,500</u>
Total (1) thru (3)					\$ <u><u>3,582</u></u>

May 28, 2013 - December 1, 2014

SCHEDULE C-3.7

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

(1) Adjusted Insurance Expense (a)	\$ 7,654
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u>(17,512)</u>

- (a) Commercial Policy (\$13,157 less \$3,048 Water Plant Refund = \$10,109.04 / 2 = \$5,054.52)
Pollution Policy (\$5,199.36 / 2 = \$2,599.68)
(b) Applicant's 2010 PUCO Annual Report

May 28, 2013 - December 1, 2014

SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1) Adjusted Federal Income Taxes (a)	\$ (3,162)
(2) Test Year Federal Income Tax (b)	<u> </u>
(3) Adjustment (1) - (2)	\$ <u><u>(3,162)</u></u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (21,030)	\$ 12,977
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(21,030)	12,977
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		662
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	662
(13) Federal Taxable Income (1) + (12)	(21,080)	12,315
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(3,162)	1,847
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(3,162)	1,847
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(3,162)	1,847
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.73%		
(26) Total Federal Income Taxes (21) + (25)	\$ (3,162)	\$ 1,847

December 2, 2014 - May 27, 2019

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

		Lower Bound	Upper Bound
(1) Rate Base (a)	\$	111,119	\$ 111,119
(2) Adjusted Operating Income (b)		(16,948)	(16,948)
(3) Rate of Return Earned (2) / (1)		-15.25%	-15.25%
(4) Rate of Return Recommended (c)		10.00%	10.00%
(5) Required Operating Income (1) x (4)		11,112	11,112
(6) Income Deficiency (5) - (2)		28,060	28,060
(7) Gross Revenue Conversion Factor (d)		1.194373	1.194373
(8) Revenue Increase Required (6) x (7)		33,514	33,514
(9) Revenue Increase Recommended		33,514	33,514
(10) Adjusted Operating Revenue (b)		102,868	102,868
(11) Revenue Requirements (9) + (10)	\$	136,382	\$ 136,382
(12) Increase Over Current Revenue (9) / (10)		32.58%	32.58%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.822300% (a)	<u>1.822300</u>
(3) Net Revenue (1) - (2)	98.177700
(4) Federal Income Taxes (3) x 14.7200% (b)	<u>14.451757</u>
(5) Operating Income Percentage (3) - (4)	83.725943
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.194373</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$ 611
(2) Staff's Recommended Revenue Increase (Schedule A-1)	33,514
(3) Uncollectibles	<u> </u>
(4) Net Revenue Increase	33,514
Effective Ohio Franchise Tax Rate (1) / (4)	<u><u>1.822300%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$ 33,514
(2) Increase in Franchise Tax	<u>611</u>
(3) Net Revenue Increase (1) - (2)	32,903
(4) Increase in Federal Income Taxes	<u>4,844</u>
(5) Effective FIT Rate (4) / (3)	<u><u>14.7200%</u></u>

December 2, 2014 - May 27, 2019

SCHEDULE B-1

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010**

(1)	Plant in Service (a)	\$	103,898
(2)	Depreciation Reserve (b)		<u>12,753</u>
(3)	Net Plant in Service (1) - (2)		91,145
(4)	Construction Work in Progress (c)		
(5)	Working Capital Allowance (d)		19,974
(6)	Other Rate Base Items (e)		<u></u>
(7)	Rate Base (3) Thru (6)	\$	<u><u>111,119</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

December 2, 2014 - May 27, 2019

SCHEDULE B-5

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance

(1)	Operation & Maintenance Expense (a)	\$	120,531
(2)	Expense Lag Dollars (1) / 6		20,088
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>19,974</u></u>

(a) O&O Schedule C-2

(b) Applicant Does Not Maintain M & S Inventory

(c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

December 2, 2014 - May 27, 2019

SCHEDULE C-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 33,370	\$ 135,791
Late Fee Revenue	447	145	592
Total Operating Revenues	102,868	33,515	136,383
<u>Operating Expenses</u>			
Operation and Maintenance	120,531		120,531
Depreciation	1,828		1,828
Taxes, Other Than Income	458	611	1,068
Federal Income Taxes	(3,000)	4,845	1,845
Total Operating Expenses	119,816	5,456	125,272
Net Operating Income	\$ (16,948)	\$ 28,060	\$ 11,112
Rate Base (d)	\$ 111,119		\$ 111,119
Rate of Return (e)	-15.25%		10.00%

- (a) O&O Schedule C-2
- (b) O&O Schedule C-1.1
- (c) Columns (a) + (b)
- (d) O&O Schedule B-1
- (e) Net Operating Income / Rate Base

December 2, 2014 - May 27, 2019

SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 33,370
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>145</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u>33,515</u>
(4) Ohio Franchise Tax (b)	\$ <u>611</u>
(5) Federal Income Tax (b)	\$ <u>4,845</u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

December 2, 2014 - May 27, 2019

SCHEDULE C-2

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(63,134)	120,531
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(3,000)	(3,000)
Total Operating Expenses	190,191	(70,375)	119,816
Net Operating Income	\$ (91,839)	\$ 74,891	\$ (16,948)

- (a) Applicant's General Ledgers
- (b) O&O Schedule C-3
- (c) Columns (a) + (b)

December 2, 2014 - May 27, 2019

SCHEDULE C-3

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u>4,516</u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	2,500
C-3.7	Insurance Expense	(17,512)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(63,134)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(3,000)</u>
	Total Expense Adjustments	\$ <u>(70,375)</u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

December 2, 2014 - May 27, 2019

SCHEDULE C-3.6a

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment**

	<u>Case Number</u>	<u>Amort. Period</u>	<u>Start Date</u>	<u>Finish Date</u>	<u>Annual Allocation</u>
(1) Sludge - Emergency	08-227-WS-AIR	10	05/27/09	05/27/19	\$ <u>2,500</u>

December 2, 2014 - May 27, 2019

SCHEDULE C-3.7

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

(1) Adjusted Insurance Expense (a)	\$ 7,654
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u>(17,512)</u>

- (a) Commercial Policy (\$13,157 less \$3,048 Water Plant Refund = \$10,109.04 / 2 = \$5,054.52)
Pollution Policy (\$5,199.36 / 2 = \$2,599.68)
- (b) Applicant's 2010 PUCO Annual Report

December 2, 2014 - May 27, 2019

SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(3,000)
(2)	Test Year Federal Income Tax (b)		<u> </u>
(3)	Adjustment (1) - (2)	\$	<u><u>(3,000)</u></u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (19,948)	\$ 12,955
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(19,948)	12,955
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		661
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	661
(13) Federal Taxable Income (1) + (12)	(19,998)	12,295
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(3,000)	1,845
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(3,000)	1,845
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(3,000)	1,845
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.72%		
(26) Total Federal Income Taxes (21) + (25)	\$ (3,000)	\$ 1,845

May 28, 2019

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

		Lower Bound		Upper Bound
(1) Rate Base (a)	\$	110,703	\$	110,703
(2) Adjusted Operating Income (b)		(14,823)		(14,823)
(3) Rate of Return Earned (2) / (1)		-13.39%		-13.39%
(4) Rate of Return Recommended (c)		10.00%		10.00%
(5) Required Operating Income (1) x (4)		11,070		11,070
(6) Income Deficiency (5) - (2)		25,893		25,893
(7) Gross Revenue Conversion Factor (d)		1.195826		1.195826
(8) Revenue Increase Required (6) x (7)		30,964		30,964
(9) Revenue Increase Recommended		30,964		30,964
(10) Adjusted Operating Revenue (b)		102,868		102,868
(11) Revenue Requirements (9) + (10)	\$	133,832	\$	133,832
(12) Increase Over Current Revenue (9) / (10)		30.10%		30.10%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

May 28, 2019

SCHEDULE A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.964600% (a)	<u>1.964600</u>
(3) Net Revenue (1) - (2)	98.035400
(4) Federal Income Taxes (3) x 14.7000% (b)	<u>14.411204</u>
(5) Operating Income Percentage (3) - (4)	83.624196
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.195826</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$	608
(2) Staff's Recommended Revenue Increase (Schedule A-1)		30,963
(3) Uncollectibles		<u> </u>
(4) Net Revenue Increase		30,963
Effective Ohio Franchise Tax Rate (1) / (4)		<u><u>1.964600%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$	30,963
(2) Increase in Franchise Tax		<u>608</u>
(3) Net Revenue Increase (1) - (2)		30,355
(4) Increase in Federal Income Taxes		<u>4,462</u>
(5) Effective FIT Rate (4) / (3)		<u><u>14.7000%</u></u>

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SCHEDULE B-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010

(1)	Plant in Service (a)	\$	103,898
(2)	Depreciation Reserve (b)		<u>12,753</u>
(3)	Net Plant in Service (1) - (2)		91,145
(4)	Construction Work in Progress (c)		
(5)	Working Capital Allowance (d)		19,558
(6)	Other Rate Base Items (e)		<u></u>
(7)	Rate Base (3) Thru (6)	\$	<u><u>110,703</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

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SCHEDULE B-5

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance

(1)	Operation & Maintenance Expense (a)	\$	118,031
(2)	Expense Lag Dollars (1) / 6		19,672
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>19,558</u></u>

(a) O&O Schedule C-2

(b) Applicant Does Not Maintain M & S Inventory

(c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

May 28, 2019

SCHEDULE C-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 30,830	\$ 133,251
Late Fee Revenue	447	134	581
Total Operating Revenues	102,868	30,964	133,832
<u>Operating Expenses</u>			
Operation and Maintenance	118,031		118,031
Depreciation	1,828		1,828
Taxes, Other Than Income	458	608	1,066
Federal Income Taxes	(2,625)	4,462	1,837
Total Operating Expenses	117,691	5,070	122,761
Net Operating Income	\$ (14,823)	\$ 25,894	\$ 11,071
Rate Base (d)	\$ 110,703		\$ 110,703
Rate of Return (e)	-13.39%		10.00%

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

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SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 30,830
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>134</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u>30,964</u>
(4) Ohio Franchise Tax (b)	\$ <u>608</u>
(5) Federal Income Tax (b)	\$ <u>4,462</u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

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SCHEDULE C-2

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(65,634)	118,031
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(2,625)	(2,625)
Total Operating Expenses	190,191	(72,500)	117,691
Net Operating Income	\$ (91,839)	\$ 77,016	\$ (14,823)

- (a) Applicant's General Ledgers
- (b) O&O Schedule C-3
- (c) Columns (a) + (b)

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SCHEDULE C-3

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u><u>4,516</u></u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	
C-3.7	Insurance Expense	(17,512)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(65,634)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(2,625)</u>
	Total Expense Adjustments	\$ <u><u>(72,500)</u></u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

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SCHEDULE C-3.6a

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment

(1) Prior Case Amortization

\$

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SCHEDULE C-3.7

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

(1) Adjusted Insurance Expense (a)	\$ 7,654
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u>(17,512)</u>

- (a) Commercial Policy (\$13,157 less \$3,048 Water Plant Refund = \$10,109.04 / 2 = \$5,054.52)
Pollution Policy (\$5,199.36 / 2 = \$2,599.68)
- (b) Applicant's 2010 PUCO Annual Report

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SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(2,625)
(2)	Test Year Federal Income Tax (b)		<u> </u>
(3)	Adjustment (1) - (2)	\$	<u><u> (2,625)</u></u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (17,448)	\$ 12,908
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(17,448)	12,908
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		658
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	658
(13) Federal Taxable Income (1) + (12)	(17,498)	12,250
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(2,625)	1,837
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(2,625)	1,837
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(2,625)	1,837
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.70%		
(26) Total Federal Income Taxes (21) + (25)	\$ (2,625)	\$ 1,837