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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of :  
Water and Sewer LLC for an Increase : Case No. 11-4509-ST-AIR  
in its Rates and Charges for Sewage :  
Disposal Service. :

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APPLICATION FOR REHEARING  
OF  
WATER AND SEWER LLC

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Water and Sewer LLC ("Water and Sewer" or the "company"), pursuant to Section 4903.10, Revised Code, and Rule 4901-1-35(A), Ohio Administrative Code ("OAC"), hereby applies for rehearing from the Commission's August 15, 2012 opinion and order in this docket whereby the Commission granted, in part, Water and Sewer's Section 4909.18, Revised Code, application for an increase in its rates for sewer service. As its grounds for rehearing, Water and Sewer respectfully submits that the Commission's order is unreasonable and unlawful in the following particulars:

1. The allowance for insurance expense incorporated in the authorized revenue requirement was not calculated in accordance with the Commission's decision on the insurance expense issue, thereby resulting in an understatement of the rate increase to which Water and Sewer is lawfully entitled.
2. The process approved by the Commission for effectuating the future rate reductions associated with the completion of previously approved expense amortizations is unreasonable and unduly burdensome, and the effective dates of the rate reductions identified in the opinion and order are inconsistent with the dates the respective amortizations will be completed.
3. The Commission's disallowance of a portion of Water and Sewer's adjusted test-year insurance expense on the grounds that the company failed to sustain its burden of proof improperly ascribes a burden to the company that the company was not required to meet and is contrary to the manifest weight of the evidence.

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4. The Commission's determination of the appropriate allowance for rate case expense is arbitrary and capricious.
5. Although Water and Sewer has committed to work cooperatively with the Village of Richfield to effectuate a transfer of its customers to a new provider at the earliest possible time, because this transfer involves matters beyond the company's control, the requirement in the order that the company file a substitution of service application with the Commission no later than December 2013 is unreasonable and unlawful.

Water and Sewer also hereby applies for rehearing from the Commission's entry in this docket of August 29, 2012 for the limited purpose of requesting that the Commission modify its directive that the approved form of customer notice be mailed to customers immediately. In view of the substantial likelihood that rates previously approved will be adjusted on rehearing as a result of correcting the error in the calculation of the allowance for insurance expense referred in the first ground for rehearing set forth above, requiring the company to mail the notice to customers before this issue is resolved would create customer confusion.

Pursuant to Rule 4901-1-35(A), OAC, a memorandum in support more fully explaining these grounds for rehearing is attached hereto.

WHEREFORE, Water and Sewer respectfully requests that its application for rehearing be granted.

Respectfully submitted,



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**MEMORANDUM IN SUPPORT  
OF  
APPLICATION FOR REHEARING  
OF  
WATER AND SEWER LLC**

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**Introduction:**

By its August 15, 2012 opinion and order in this docket, the Commission authorized Water and Sewer to implement a fixed, bi-monthly rate that would generate additional gross annual revenues of \$38,526,<sup>1</sup> compared to the increase of \$41,260 that would have been produced by the rates proposed in the application.<sup>2</sup> The order further provided that the approved rate would be subject to future reductions on specified dates to reflect the completion of certain expense amortizations approved in prior rate cases and reaffirmed by the Commission in this proceeding. Thus, the order also established the annual revenue requirements upon which each of these future reductions would be based.<sup>3</sup>

As the Commission well knows, this was essentially a two-issue case from a revenue requirements standpoint. The first issue was whether the Staff erred in failing to recognize as an allowable expense the annual recovery amounts associated with expense amortizations approved

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<sup>1</sup> See Opinion and Order, 23.

<sup>2</sup> See Staff Report, 1; *see also* Staff Report, Schedule C-1.

<sup>3</sup> See Opinion and Order, 32-33.

in Case No. 03-318-WS-AIR and Case No. 08-227-WS-AIR that had not yet been completed. The Commission found in favor of the company on this issue, but, as indicated above, ordered that these amounts come out of the company's rate when recovery of the underlying expenses are completed.<sup>4</sup> Although, as discussed *infra*, the company believes that the process for effectuating these rate reductions set forth in the order is unnecessarily cumbersome and that the dates of the reductions specified in the order are incorrect, the company agrees that reducing the rate when the amortizations are completed is reasonable and appropriate.

The second contested issue related to the appropriate allowance for insurance expense, and, more specifically, to the reasonableness of the Staff's recommended disallowance of one-half of the company's annualized test-year cost of insurance on the ground that the coverage under the policies in question extended to an unregulated entity and/or to unregulated operations. On this issue, the Commission found in part for the company and in part for the Staff,<sup>5</sup> which should have resulted in an allowance for insurance expense that fell between the competing positions of the two parties. However, as detailed below in the company's first ground for rehearing, the calculation of the allowance for insurance expense shown in O&O Schedule C-3.7 appended to the order does not conform to the specifics of the Commission's decision on this issue. Once that calculation is corrected and the resulting allowance for insurance expense is flowed through the other affected revenue requirements schedules, the outcome is a revenue requirement that exceeds the annual pro forma revenues that would have been generated by the rates proposed in the application.

Although the Commission typically does not approve rates that are higher than the noticed rates proposed in the application, because this was an abbreviated filing, the case could

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<sup>4</sup> See Opinion and Order, 13.

<sup>5</sup> See Opinion and Order, 20.

be made that, in this instance, the increase should be as dictated by the statutory ratemaking formula and should not be capped by the noticed rates.<sup>6</sup> However, the company has stated throughout that, if the revenue requirement ultimately approved by the Commission in this proceeding exceeds that which would have been produced by the proposed rates, the company will not contest capping the approved rate at the level proposed in the application.<sup>7</sup> Thus, assuming that the Commission corrects the error in the calculation of the allowance for insurance expense, certain of the other grounds for rehearing advanced herein will, as a practical matter, be moot because the rate can be no higher than the rate proposed in the application regardless of the fact that these other errors also contributed to an understated revenue requirement. That said, there is no absolute assurance that the Commission will, in fact, grant rehearing for the purposes of making this correction, so the company is compelled to raise these other matters as additional grounds for rehearing at this time.

Because of the timing involved, it is critical that Commission act on this rehearing application as expeditiously as possible. The order authorized Water and Sewer to implement the new rate with its October bills for the August-September 2012 service period. Consistent with Staff's recommendation, the order provided that the rate for the first bi-monthly billing following approval of the new rate would be prorated based on the number of days the old rate and the new rate were applicable, respectively, during the service period in question. The Commission's August 29, 2012 entry confirmed that the new rate was applicable effective August 16, 2012. The entry also approved a customer notice advising customers of the

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<sup>6</sup> When a small utility chooses to avail itself of the abbreviated filing requirements of Chapter IV of the Commission's Standard Filing Requirements to spare its customers the cost associated with preparing a full-blown rate increase application, the applicant utility relies on the Staff to develop the appropriate revenue requirement as a result of its investigation. Thus, the rates proposed in the application are necessarily based on what is only a preliminary estimate of the revenue requirement.

<sup>7</sup> See Water and Sewer Brief, 41.

authorized rate increase, stating that the October bill would be prorated as described above, and explaining that the new rate would apply thereafter until reduced upon completion of the various ongoing expense amortizations. Although the entry required the company to mail the customer notice “immediately,”<sup>8</sup> such a measure could generate considerable customer confusion if, as anticipated, the rate is changed on rehearing. Acting on this application for rehearing promptly would permit the company to mail the notice of increase ultimately authorized prior to the mailing of the October bills for the August-September service period, thereby obviating the need for a second customer notice explaining the additional increase. However, if this cannot be accomplished, fairness requires that the rate ultimately authorized on rehearing be made effective on a bills-rendered basis so that the December 2012 bills for the October-November 2012 service period will reflect the new rate regardless of the date of the entry on rehearing.

**First Ground for Rehearing:**

***The allowance for insurance expense incorporated in the authorized revenue requirement was not calculated in accordance with the Commission’s decision on the insurance expense issue, thereby resulting in an understatement of the rate increase to which Water and Sewer is lawfully entitled.***

Water and Sewer has two insurance policies: a commercial package policy written by Westfield Insurance Company<sup>9</sup> and a pollution control policy written by The Philadelphia Indemnity Insurance Company.<sup>10</sup> After annualizing the cost of the policies based on the level of premiums in effect at the end of the test year – an adjustment the company agreed was appropriate<sup>11</sup> – Staff summed the annualized cost of the commercial package policy of

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<sup>8</sup> See August 29, 2012 Entry, 2.

<sup>9</sup> See Applicant’s Ex. 4.

<sup>10</sup> See Applicant’s Ex. 5.

<sup>11</sup> See Water and Sewer Objections, 4; Applicant’s Ex. 2 (Rosselet Direct), 10.

\$13,157.04 and the annualized cost of the pollution control policy of \$5,199.36, and divided the resulting total of \$18,356.40 by two, thereby producing a recommended allowance for insurance expense of \$9,178.20.<sup>12</sup> The narrative in the Staff Report described this adjustment as an allocation of one-half of insurance expense to “non-regulated business operations,” a term originally defined in a Staff Report workpaper, Schedule WPC-3.7,<sup>13</sup> as a referring to Richfield Furnace Run Associates (“RFRA”), which was also a named insured on the Water and Sewer policies.<sup>14</sup> However, in her prefiled direct testimony, Staff witness Crocker expanded this definition of “non-regulated business operations” to include the company’s former water operations.<sup>15</sup> Thus, although the amount of the proposed disallowance did not change, it was not clear precisely what Staff was ultimately recommending in terms of an adjustment.

The company opposed any allocation of the annualized cost of the premiums to RFRA on the ground that including RFRA as a named insured on the policies did not have any effect on the cost of the policies. Thus, although acknowledging that the policies conferred some benefit upon RFRA, because this benefit came at no cost to Water and Sewer ratepayers, the company contended that this reduction of the allowance for insurance expense was confiscatory. However, the company agreed that, to the extent that general liability component of the commercial package policy coverage related to the remaining water assets, the cost of the

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<sup>12</sup> See Staff Schedule WPC-3.7, reproduced as Applicant’s Ex. 2 (Rosset Direct), Ex. KNR-1.

<sup>13</sup> *Id.* In its order, the Commission stated that Water and Sewer identified the non-regulated business operations as RFNR. See Opinion and Order, 13. That is incorrect. It was Staff that identified the business operations in question as RFNR.

<sup>14</sup> Although RFRA has the same member-owners as Water and Sewer, it is a totally separate legal entity and maintains its own insurance coverage. See Applicant’s Ex. 2 (Rosset Direct), 10.

<sup>15</sup> See Staff Ex. 3 (Crocker Direct), 3.

premium associated with that coverage part should be excluded from the insurance expense allowance.<sup>16</sup>

Although Water and Sewer adamantly disagrees with certain aspects of the Commission's rationale for its decision on this issue,<sup>17</sup> the order was very clear in detailing how the allowance for insurance expense should be calculated. With respect to the commercial package policy written by Westfield Insurance Company, the Commission found that the total annualized premium of \$13,157 should be reduced by \$3,048, the cost of the premium the evidence showed was attributable to coverage of the remaining water assets.<sup>18</sup> The Commission then found that one-half of the \$1,347 cost of the premium associated with the general liability coverage component of the commercial package policy (*i.e.*, \$673.50) should be ascribed to RFRA, but rejected the Staff's proposal that one-half of the premiums associated with other coverage components of the commercial package policy should be allocated to RFRA.<sup>19</sup> Thus, based on the plain language of the order, the allowance for the commercial package policy expense should have been \$9,435.54 ( $\$13,157.00 - \$3,048.00 = \$10,109.40 - \$673.50 = \$9,435.54$ ). With respect to pollution control policy written by the Philadelphia Indemnity Insurance Company, the Commission determined that one-half of the annualized premium of \$5,199.36 (*i.e.*, \$2,599.68) should be allocated to RFRA.<sup>20</sup> Accordingly, the total allowance for insurance expense approved by the Commission was the sum of the allowable amounts for the commercial package policy and the pollution control policy, or \$12,035.22 ( $\$9,435.54 +$

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<sup>16</sup> See Applicant's Ex. 3B (Rosselet Corrected Rebuttal), 16-17.

<sup>17</sup> See Third Ground for Rehearing, *infra*.

<sup>18</sup> See Opinion and Order, 18-19.

<sup>19</sup> See Opinion and Order, 20.

<sup>20</sup> *Id.*



\$2,599.68 = \$12,035.22). However, this is not the amount for insurance expense that was included in developing the authorized revenue requirement of \$141,294.

Line 1 of O&O Schedule C-3.7 attached to the order shows “Adjusted Insurance Expense” of only \$7,654 as opposed to the \$12,035 calculated above. A copy of O&O Schedule C-3.7 is attached hereto as Exhibit A. As a review of Footnote (a) of O&O Schedule C-3.7 will show, the difference is attributable to the fact that, after reducing the annualized commercial package policy amount by the \$3,048 attributable to coverage of the water assets, the entire remainder of \$10,109.40 was divided by two, notwithstanding that the Commission found that only one-half of the premium associated with the general liability coverage component of the commercial package policy, or \$673.50, should be allocated to RFRA. As a result, the allowance for insurance expense is understated by \$4,381 ( $\$12,035 - \$7,654 = \$4,381$ ). A corrected version of O&O Schedule C-3.7 is attached hereto as Exhibit B.

When this correction is flowed through to the other affected revenue requirement schedules,<sup>21</sup> the indicated revenue requirement becomes \$145,595, which translates into an indicated increase in gross annual revenues of \$42,727, as opposed to the increase of \$38,426 authorized in the order. Corrected O&O Schedule A-1 included in attached Exhibit C shows this correction to the authorized revenue requirement, but recognizes the company’s agreement that authorized increase should be capped by the gross annual revenues that would be generated by the noticed rates, or \$41,260, which produces a revised revenue requirement of \$144,128.

The correction to the allowance for insurance expense also affects the revenue requirements upon which each of the future rate reductions associated with the completion of the previously approved expense amortizations are based. Exhibit C also includes Corrected O&O

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<sup>21</sup> The correction to insurance expense increases the cash component of the working capital allowance included in rate base and decreases the expense allowance for pro forma income taxes reflected in the gross revenue conversion factor.

Schedules A-1 for each of these future rate reductions, which show that the revenue requirements associated with the completion of each of the amortizations are \$141,930, \$140,874, and \$138,420, respectively.

The Commission should grant rehearing to correct these errors and should revise the determination of the allowable gross annual revenue to which the Company is entitled set forth in Findings of Fact Nos. 14, 15, 16, and 17 of the order consistent with the foregoing discussion. As shown in attached Exhibit D, the corrected revenue requirement of \$144,128 will result in a fixed bi-monthly rate of \$310.61 as initially proposed in the application.<sup>22</sup>

### **Second Ground for Rehearing:**

**The process approved by the Commission for effectuating the future rate reductions associated with the completion of previously approved expense amortizations is unreasonable and unduly burdensome, and the effective dates of the rate reductions identified in the opinion and order are inconsistent with the dates the respective amortizations will be completed.**

Although Water and Sewer initially objected to the Staff's failure to recommend that the new bi-monthly fixed charge for sewer service be made effective on a bills-rendered basis,<sup>23</sup> the company ultimately supported Staff witness Daly's recommendation that the charge in the first bill following the Commission's rate order be prorated based on the number of days the old rate and new rate were in effect during the service period.<sup>24</sup> The Commission expressly adopted Ms. Daly's recommendation in its order.<sup>25</sup> In addition, consistent with Ms. Daly's testimony, the

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<sup>22</sup> The rates proposed in the application were based on the existing rate structure, which contained a fixed bi-monthly customer charge and fixed bi-monthly charge for service. Thus, the above reference to the proposed rate of \$310.61 is actually the result of combining these two charges into a single fixed bi-monthly rate, a measure recommended by the Staff and reflected in the compliance tariff rate sheet.

<sup>23</sup> See Water and Sewer Objections, 8.

<sup>24</sup> See Staff Ex. 2 (Daly Direct), 4; Water and Sewer Brief, 39.

<sup>25</sup> See Opinion and Order, 29.

Commission also found that the tariff sheets admitted into evidence as Applicant's Exhibit 6 satisfactorily addressed all the concerns set forth in the Rates and Tariffs section of the Staff Report and provided that, subject to the insertion of the new rates and effective dates, these revised compliance sheets should be effective upon filing with no need for a separate approval by a subsequent entry.<sup>26</sup> Thus, taken together, these provisions of the order clearly indicated that the Commission's intent was that the revised tariff sheets were to be effective upon filing, an outcome confirmed by the revenue requirement schedules appended to order, the first set of which were identified as being applicable to the period commencing August 15, 2012, the date of the order.<sup>27</sup> However, the order then went on to direct Water and Sewer to file final tariff sheets "31 days prior to the intended effective date,"<sup>28</sup> notwithstanding that the intended effective date of the new rate was the date of the order itself.

Water and Sewer, which had been prepared to file the compliance tariffs on August 15, 2012, ultimately filed the compliance tariffs on August 16, 2012 after consulting with Staff regarding the appropriate course of action. Consistent with its understanding of the underlying intent, the company included the August 16, 2012 date of filing as the issuance date and the effective date in the footer of each new tariff sheet, and calculated the prorated rate for the August-September 2012 service period shown on First Revised Sheet No. 1 of Section 2 of the tariff based on the August 16, 2012 effective date.<sup>29</sup>

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<sup>26</sup> See Opinion and Order, 30.

<sup>27</sup> See Opinion and Order, Attachment, 1-12.

<sup>28</sup> See Opinion and Order, 30.

<sup>29</sup> Notwithstanding that the revenue requirement schedules attached to the order indicated that new rate would apply effective August 15, 2012, Water and Sewer chose to show the August 16, 2012 date the tariffs were filed as the effective date rather than the August 15, 2012, date of the order to avoid any possible controversy over whether the company was charging a rate not contained in its filed tariff.

By entry of August 29, 2012, the Commission confirmed the August 16, 2012 effective date, and stated that the requirement that the tariff sheets be filed 31 days in advance of the effective date was intended to apply to the future rate reductions associated with the completion of the expense amortizations previously approved in Case Nos. 03-318-WS-AIR and 08-227-WS-AIR.<sup>30</sup> Thus, as things now stand, Water and Sewer would still be required to file the revised rate sheets reflecting the future rate reductions 31 days in advance of the intended effective date.

Water and Sewer respectfully submits that this requirement is unreasonable and imposes an unnecessary burden and expense upon the company. The far more efficient approach would be to insert the reduced fixed bi-monthly charges and the periods to which they apply in the rate sheet of the tariff at this time. This would mirror the manner in which the prorated rate applicable to the August-September billing period and the rate applicable thereafter are displayed on the previously approved rate sheet. This approach would also eliminate the need for these future reduction filings and the rather curious requirement that the revised tariff sheets be filed 31 days in advance of the intended effective date.<sup>31</sup> It may be that the Commission provided for this lead time because it intended that the company would mail a customer notice in connection with each of the future reductions. However, the customer notice approved by the August 29, 2012 entry already explains that these future reductions will occur, and requiring the company to mail an additional notice – if, indeed, that is what was contemplated – does not appear to serve any real purpose because this involves rate reductions rather than rate increases. Moreover, as discussed below, the dates specified for the future rate reductions – May 28, 2013, December 2,

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<sup>30</sup> See August 29, 2012 Entry, 1-2.

<sup>31</sup> Water and Sewer bills on a bi-monthly basis, so the purpose of the 31-day advance notice requirement is far from clear.

2014, and May 28, 2019<sup>32</sup> – bear no relationship to the completion of the recovery of the amortized expenses in question, and, thus, must also be corrected on rehearing.

The first amortization to be completed will be the four-year amortization of the \$14,920 in road repair expense originally authorized by the Commission in its May 27, 2009 opinion and order in Case No. 08-227-WS-AIR.<sup>33</sup> In stating that the associated rate reduction should become effective May 28, 2013, the Commission apparently overlooked the fact that the rates authorized in Case No. 08-227-WS-AIR were made effective on a bills-rendered basis.<sup>34</sup> Thus, customers did not begin paying rates that reflected the bi-monthly recovery amount associated with this amortization until their June 1, 2009 bi-monthly bills. Accordingly, at least in theory, the recovery of this expense will be completed with the April 1, 2013 bills, and the reduction associated with the completion of this amortization should be effective with the June 1, 2013 bills for April-May 2013 service period. At that time, based on the corrected revenue requirement, the bi-monthly charge should be reduced to \$305.87, as shown in the rate calculations attached hereto as Exhibit D.

The second rate reduction will be tied to the completion of two ten-year amortizations originally authorized by the Commission in its October 6, 2004 opinion and order in Case No. 03-318-WS-AIR: one for \$7,122 in test-year sludge removal expense related to the clean-up effort required due to poor maintenance practices of the prior owner and one for the \$3,700

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<sup>32</sup> *Id.*

<sup>33</sup> See *In the Matter of the Application of Water and Sewer LLC for an Increase in Rates and Charges*, Case No. 08-227-WS-AIR (Opinion and Order dated May 27, 2009), at 11, adopting Joint Stipulation and Recommendation (“Stipulation”) dated April 29, 2012. The terms of the amortization are set forth in at Paragraph 2.a. of the Stipulation.

<sup>34</sup> See Case No. 08-227-WS-AIR (Opinion and Order dated May 27, 2009), at 9.

expense associated with a sludge management plan mandated by the Ohio EPA.<sup>35</sup> However, as in Case No. 08-227-WS-AIR, the rates authorized in Case No. 03-318-WS-AIR were also made effective on a bills-rendered basis.<sup>36</sup> Thus, customers began funding these amortizations with their December 1, 2004 bills. It is not clear why the Commission identified December 2, 2014 as the effective date for the reduction associated with the completion of these amortizations, but, in any event, the pro forma recovery will be completed with the bi-monthly bills issued October 1, 2014 and the associated amount should come out the company's rate with the December 1, 2014 bills for the October-November 2014 service period. At that time, the bi-monthly charge should be reduced to \$303.59 as shown in Exhibit D.

The final amortization in question is the ten-year amortization of \$25,000 in emergency septage hauling expense approved in Case No. 08-227-WS-AIR.<sup>37</sup> As explained above, the rates authorized in that case were made effective on a bills-rendered basis commencing with the June 1, 2009 billing, so, with pro forma recovery completed with the April 1, 2019 bills, the associated amortization amount should come out of the company's rate effective with the June 1, 2019 bills for the April-May 2019 service period. At that time, the bi-monthly charge should be reduced to \$298.31 as shown in Exhibit D hereto.

Attached hereto as Exhibit E is a proposed revised rate sheet – Second Revised Sheet No. 1, Section 2 – showing the fixed bi-monthly rate that will apply in each of the identified periods, as well as a proposed revised tariff sheet – Third Revised Sheet No. 2, Section ii – showing the related change in the Subject Index. Water and Sewer respectfully requests that the

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<sup>35</sup> See *In the Matter of the Application of Water and Sewer LLC for an Increase in Rates and Charges*, Case No. 03-318-WS-AIR (Opinion and Order dated October 6, 2004), at 14-15.

<sup>36</sup> See Case No. 03-318-WS-AIR (Entry dated November 23, 2004), at 2.

<sup>37</sup> Case No. 08-227-WS-AIR (Opinion and Order dated May 27, 2009), at 11, adopting Joint Stipulation and Recommendation ("Stipulation") dated April 29, 2012. The terms of the amortization are set forth in at Paragraph 2.e. of the Stipulation.

Commission approve these tariff sheets as a part of its entry on rehearing, and order that these tariff sheets be effective as of the date of filing, thereby eliminating the need for approval by subsequent entry. A proposed revised customer notice reflecting these changes is attached hereto as Exhibit F. Water and Sewer also requests that this customer notice be approved in the entry on rehearing. This notice would be sent in lieu of the notice previously approved.

If the Commission does not act on this application for rehearing in time for the company to mail the revised notice to customers in advance of the October bills, the Commission should approve the proposed Third Revised Sheet No. 1, Section 2 attached hereto as Exhibit G and provide that sheet be effective upon filing without need for approval by subsequent entry. Under the circumstances, the Commission should specify that the rate contained therein be effective on a bills-rendered basis effective with the December 2012 bills for the October-November service period. Under this scenario, Water and Sewer will mail the customer notice approved in the August 29, 2012 entry prior to October 1, 2012 billing. In that event, Water and Sewer requests approval of the second customer notice attached hereto as Exhibit H, and direct that this notice be mailed prior to the December 1, 2012 billing.

**Third Ground for Rehearing:**

**The Commission's disallowance of a portion of Water and Sewer's adjusted test-year insurance expense on the grounds that the company failed to sustain its burden of proof improperly ascribes a burden to the company that the company was not required to meet and is contrary to the manifest weight of the evidence.**

As indicated above, if the Commission corrects the error its calculation of the allowance for insurance expense on rehearing, Water and Sewer's exceptions to the Commission's substantive determination of the allowance for insurance expense will, as a practical matter, be moot. However, the company respectively submits that the Commission's decision on the

insurance expense issue is fatally flawed in certain respects. Water and Sewer presented a thorough analysis of this issue in its brief, and will not repeat that entire discussion here, but there are several Commission findings that comprise the basis for this decision that must be addressed.

First, the Commission's finding that the company did not present sufficient evidence to support its contention that the inclusion of RFRA as a named insured on the pollution control policy had no effect on the premiums paid by Water and Sewer misstates the company's obligation with respect to the issue in question. Section 4909.15(B), Revised Code, provides that the Commission shall include the cost of rendering service during the test year in computing the gross annual revenues to which an applicant utility is entitled. Because it would be contrary to a utility's interest to pay more for a service than it has to, there is, if not a full-blown legal presumption, at least an operative assumption that the expenses actually incurred by an applicant utility in the test year were reasonably incurred. This is not to say that the Commission cannot adjust an actual test-year expense for ratemaking purposes upon a showing that the test-year expense was unrepresentative, unreasonable in amount, or was related to non-jurisdictional operations. Of course it can – and this is precisely what the Commission did in correctly excluding the cost of the component of the commercial package policy that related to the company's remaining water assets. However, it falls to the party challenging an actual test-year expense to present evidence in support of its claim that the expense is unreasonable.<sup>38</sup> Further, the Commission cannot tell those who provide services to an applicant utility how to price their services, nor can it rewrite contracts between such providers and the applicant utility. Thus, if a party proposes that a portion of the test-year expense that an applicant utility has actually

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<sup>38</sup> If this were not the standard, rate cases would be interminable, as the applicant utility would have to put on evidence justifying every nickel it spent no matter how specious the challenge.



incurred should be disallowed, if falls to that party to demonstrate that there is was a feasible alternative available that would, in fact, have lead to a lower cost of service.

The Commission recognized this concept in its order in Water and Sewer's 2003 rate case in rejecting staff-proposed adjustments to the actual test-year expense incurred by the company under its contract with its plant operator based on the staff's failure to present "any evidence of any other company that might perform these services for a lower cost, of individuals that might be available to do this work, or of any other way that the applicant could satisfactorily achieved the same ends."<sup>39</sup> Thus, although, contrary to the Commission's finding, Water and Sewer did show that including RFRA as a named insured did not increase the cost of the pollution control policy premium, it was the Staff that had the burden of going forward by presenting evidence showing that the pollution control policy could have been obtained at a lower price if RFRA had not been included as a named insured. The Staff made no such showing. All the Staff did was to eliminate half the cost of the premium on the theory that RFRA also benefitted from being a named insured, without any showing that, if RFRA had not been a named insured, the cost of the policy would have been less. Indeed, even the Staff recognized that Water and Sewer could not send a bill to RFRA for half the cost of the insurance.<sup>40</sup> Thus, disallowing half the annual cost of the pollution policy leaves the company with no means to recover this ordinary and necessary business expense.

What is even more perplexing is that the Commission got this right in connection with the commercial package policy, finding that Staff's argument that certain components of this policy could apply to RFRA was "merely speculation" and did not support the allocation of any

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<sup>39</sup> See *In the Matter of the Application of Water and Sewer LLC for an Increase in Rates and Charges*, Case No. 03-318-WS-AIR (Opinion and Order dated October 6, 2004), at 17-19.

<sup>40</sup> See May 10, 2012 Hearing Transcript (Crocker Cross), 170.

cost to RFRA other than the premium associated with the general liability coverage component. Yet, in this instance, the Commission disallowed one-half of the entire cost of the pollution control policy notwithstanding that the basis of the Staff position was exactly the same with respect to both policies. There is no question that the company must maintain pollution control insurance coverage.<sup>41</sup> However, with no evidence in the record showing that it was possible for the company to obtain this coverage at a lower price, the Commission's allocation of one-half of the cost of the pollution control policy to RFRA was unreasonable, unlawful, and confiscatory.

Second, there was more than ample evidence showing that the cost of the policy premiums was unaffected by including RFRA as a named insured. Water and Sewer witness Rosselet so testified, and presented an email from the company's insurance agent stating that this was the case with respect to the commercial package policy.<sup>42</sup> The Commission apparently discounted this email on the ground that "this representation was not offered in the form of a notarized affidavit," going so far as to characterize the email as a "purported email."<sup>43</sup> However, no party raised a hearsay objection at the time the email was admitted into evidence, and it is not the Commission's place to disregard this evidence on hearsay grounds once it has been admitted.<sup>44</sup> In fact, Water and Sewer had absolutely no reason to believe that this point was even in question. It must be remembered that Staff witness Crocker's position was not that the premiums paid by Water and Sewer were excessive due to the fact that RFRA was included as a

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<sup>41</sup> The notion that, because both Water and Sewer and RFRA were named insureds, there is no reason why RFRA should not have been the party responsible for paying for insurance on Water and Sewer's operations (*see* Opinion and Order, 19) is not even deserving of comment.

<sup>42</sup> *See* Applicant's Ex. 2 (Rosselet Direct), 12; Applicant's Ex. 2 (Rosselet Direct), Ex. KNR-2.

<sup>43</sup> Opinion and Order, 19.

<sup>44</sup> The reason for this procedural rule is obvious. If there is no hearsay objection, a party can stand on the evidence it has presented on a particular point and has no reason to present additional evidence with respect to that point, particularly where, as here, there is no evidence to the contrary.

was included as a named insured on the policy, but that a portion of the insurance expense should be allocated to RFRA simply because RFRA benefitted by virtue of being a named insured.<sup>45</sup> Water and Sewer had no obligation to offer additional evidence to establish that the cost of the insurance premiums would be the same if RFRA were not a named insured because Staff never raised the issue in either the Staff Report or the prefiled testimony of its witness and did not present any testimony or evidence rebutting Mr. Rosselet's testimony on this subject.

With respect to the pollution control policy, Mr. Rosselet explained that it was clear that the inclusion of RFRA as a named insured did not add to the premium because, when the policy was amended by a subsequent endorsement to add RFRA as a named insured, the price of the policy premium did not increase.<sup>46</sup> In the order, the Commission attempts to get around this by speculating that it was possible that, because the intent was always to include RFRA as a named insured, the original premium may have already included the cost of the coverage.<sup>47</sup> Where is the evidence showing this? There is none, and the company cannot be faulted for failing to anticipate the need to present evidence to rebut a proposition that it never dreamed any party, let alone the Commission, would advance.

Third, and more to the point, as must surely be obvious, the reason that the premium did not increase with the inclusion of RFRA as a named insured is that adding a named insured does not increase the insurer's marginal risk. The insurer would ultimately be required to pay off to only one of the named insureds for any specific liability or casualty loss resulting from a claim. Does it cost more for a homeowner to include his/her lender as a named insured on his/her homeowner policy? Of course not, because the insurer's marginal risk is the same regardless of

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<sup>45</sup> See Staff Ex. 3 (Crocker Direct), 3.

<sup>46</sup> See Applicant's Ex. 3B (Rosselet Corrected Rebuttal), 15, and KNR-Reb-4, KNR-Reb-5.

<sup>47</sup> See Opinion and Order, 20.

how many named insureds there are on the policy. Yet, under the Commission's interpretation, the lender should be responsible for one-half of the homeowner's premiums notwithstanding that the prudent homeowner would maintain insurance at the same cost in any event. The Commission's determination that the cost of the premium should "be shared between the two entities," is unreasonable and unlawful and rehearing should be granted on this ground.

**Fourth Ground for Rehearing:**

**The Commission's determination of the allowance for rate case expense is arbitrary and capricious.**

For purposes of the revenue requirement analysis presented in the Staff Report, the Staff included an estimated allowance for rate case expense of \$15,000<sup>48</sup> and recommended that the allowance be amortized over a five-year period.<sup>49</sup> The Staff Report also included the customary Staff recommendation that the company submit its own estimate of the costs associated with the proceeding as a late-filed exhibit after the conclusion of the hearing, and that the Commission consider this updated estimate in determining the appropriate allowance for this item.<sup>50</sup>

In its objections to the Staff Report, Water and Sewer indicated that it had no objection to the use of the \$15,000 estimate as a placeholder, but pointed out that, because the level of rate case expense is a function of whether a case is actually litigated – something that could not be known at the time the Staff Report was prepared – there was no basis for judging whether the Staff's \$15,000 estimate would ultimately represent an adequate allowance for rate case expense.<sup>51</sup> Thus, the company maintained that the allowance for rate case expense should reflect

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<sup>48</sup> See Staff Report Schedule 3.6.

<sup>49</sup> See Staff Report, 6.

<sup>50</sup> *Id.*

<sup>51</sup> Water and Sewer Objections, 5-6.

the actual costs incurred by the company in connection with this proceeding. Further, although endorsing the Staff recommendation that the Commission review the late-filed exhibit before making a final determination of the appropriate allowance for rate case expense, the company made it clear that it was not agreeing to the Commission's usual practice of using the initial rate case expense estimate as an upper bound of the rate case expense allowance and adjusting the initial estimate only when the late-filed exhibit indicated that the actual costs will be less than the estimate.<sup>52</sup> As Water and Sewer witness Rosselet explained, although this approach may arguably be appropriate where the original estimate is prepared by the applicant utility, because this was an abbreviated filing, the \$15,000 estimate in the Staff Report represents the Staff's estimate, not that of Water and Sewer.<sup>53</sup> Thus, Mr. Rosselet recommended that, under these circumstances, the updated estimate in the late-filed exhibit should control without regard to whether it is above or below the initial Staff estimate.<sup>54</sup>

Consistent with the Staff's recommendation, on June 7, 2012, the company submitted a late-filed exhibit showing actual rate case expense incurred through May 31, 2012 of \$27,059.34. However, in its order, the Commission approved the Staff's initial \$15,000 estimate as the allowance for rate case expense in this case, notwithstanding that this estimate was presented in the Staff Report before it was even known if the case would be litigated and notwithstanding that this estimate was never supported with any testimony explaining how it was derived. Although this issue will be moot if the Commission corrects the error in the allowance for insurance expense discussed above, Water and Sewer submits that this \$15,000 allowance for rate case expense is unreasonable and unlawful on several grounds.

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<sup>52</sup> *Id.*

<sup>53</sup> *See* Applicant's Ex. 2 (Rosselet Direct), 14.

<sup>54</sup> *Id.*

First, there is no record basis for the \$15,000 rate case expense estimate that appears in the Staff Report. Water and Sewer assumes that the Staff used this figure because this was the allowance for rate case expense that was included in the stipulation that resolved Case No. 08-227-WS-AIR.<sup>55</sup> However, the actual rate case expense incurred by the company in connection with that proceeding was some \$22,682<sup>56</sup> even though, unlike this case, Case No. 08-227-WS-AIR was resolved by a stipulation without the need for litigation. The fact that company agreed to the cap on rate case expense in its last rate case to settle the case is certainly not evidence that \$15,000 is a reasonable allowance for rate case expense for a fully-litigated case, and to rely on the stipulation for this purpose would violate the terms of the stipulation itself.

Second, as Water and Sewer witness Rosselet pointed out, the Commission's practice of allowing the lesser of the original rate case expense estimate or the actual expense shown in the late-filed exhibit is not appropriate under the circumstances presented here. Because the purpose of the exercise is to develop a reasonable allowance for rate case expense, this approach may make some sense where the applicant utility develops the original estimate based on its historical experience and includes it as part of the revenue requirement proposed in the application. However, because this was an abbreviated filing, the company had no hand in the \$15,000 estimate included in the Staff Report. Thus, there is no justification for capping rate case expense at the level of the original Staff estimate of \$15,000 when the company actually incurred \$27,059.34 in rate case expense in connection with this proceeding and \$22,682 in rate case expense in connection with Case No. 08-227-WS-AIR, notwithstanding that the latter was not a litigated case.

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<sup>55</sup> Case No. 08-227-WS-AIR (Opinion and Order dated May 27, 2009), at 11, adopting Joint Stipulation and Recommendation ("Stipulation") dated April 29, 2012. The allowance for rate case expense is set forth in Paragraph 2.a of the Stipulation.

<sup>56</sup> *Id.*

Third, the Commission's statement that it "must consider the size of the company and a comparison to the rate case expense relative to the required revenue increase"<sup>57</sup> ignores the realities of the situation. Clearly, the number of customers has little bearing on the costs an applicant utility actually incurs in prosecuting a rate case, except for the cost of mailing the post-order customer notice. Further, although the company agrees with the Commission's observation that abbreviated filing requirements are intended to minimize rate case expense for small companies,<sup>58</sup> once the applicant utility is forced into litigation mode, the cost savings in preparing the application that flow from the abbreviated filing option are quickly swallowed up by the cost of responding to discovery, preparing expert testimony, participating in the hearing, and filing a posthearing brief. These costs do not turn on the number of customers or the level of the required revenue increase involved.<sup>59</sup>

Fourth, as evidenced by the Commission's decision with respect to the contested issues, there can be no question that this case should have been settled, and it is certainly not the company's fault that this did not happen. Indeed, up to the very last minute, the company assumed that the case would be resolved by a stipulation, and it was not until the Staff testimony was filed that the company realized that it would have to litigate these issues.<sup>60</sup> Thus, it is particularly galling that the Commission would disallow almost half the rate case expense actually incurred by the company to protect its interests when these costs were driven, in large measure, by the Staff's unwillingness to concede on positions that were contrary to longstanding

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<sup>57</sup> Opinion and Order, 21.

<sup>58</sup> *Id.*

<sup>59</sup> In addition, we do not know what to make of the Commission's reference to "an approved revenue increase [that] does not exceed \$39,488." Opinion and Order, 21. The approved revenue increase was \$38,426. See O&O Schedule A-1, Line (9).

<sup>60</sup> See May 3, 2012 Entry, 1.

Commission precedent and common sense. The fact that this was an abbreviated filing does not mean that the company should simply roll over and accept the Staff's analysis. Indeed, if the company had not vigorously pursued its objections, it would have been stuck with a rate increase that was well below the increase to which it was lawfully entitled. Moreover, the company has now been forced to file for rehearing due to an error on the part of the Commission in calculating the revenue requirement, the cost of which is not included in the amount shown in the late-filed rate case expense exhibit.

Again, because the company is not seeking a rate increase that exceeds that which would have been produced by the noticed rates, the rate case expense issue will become moot if the Commission corrects the error in the calculation of the allowance for insurance expense. However, Water and Sewer respectfully submits that the appropriate allowance for rate case expense is the \$27,059, which, when amortized over five years, would have produced an annual recovery amount of \$5,412 as opposed to the \$3,000 resulting under the Commission's decision on this issue. Rehearing should be granted on this ground and the Commission's determination of the appropriate allowance for rate case expense should be modified accordingly.

#### **Fifth Ground for Rehearing:**

**Although Water and Sewer has committed to work cooperatively with the Village of Richfield to effectuate a transfer of its customers to a new provider at the earliest possible time, because this transfer involves matters beyond the company's control, the requirement in the order that the Company file a substitution of service application with the Commission no later than December 2013 is unreasonable and unlawful.**

In its order, the Commission recognized that Water and Sewer and the Village of Richfield ("Richfield"), pursuant to the Joint Stipulation of Intent introduced at hearing,<sup>61</sup> have commenced discussions regarding a transfer of sewer service to a new provider that will permit

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<sup>61</sup> See Joint Ex. 1.



the company to exit the sewer business.<sup>62</sup> The company agrees with the Commission's finding that this effort is in the public interest and, in fact, has attempted to initiate discussions regarding the sewer service to its customers ever since it exited the water business in 2009. However, the order states that Water and Sewer should file a substitution of service application no later than December of 2013, a date based on Richfield witness AbouAbdallah's estimate that construction of the necessary facilities and the transfer of service could be completed in the latter half of 2013.<sup>63</sup> Although the company is committed to working cooperatively with Richfield to effectuate this result, the ball is in Richfield's court with respect to issues such as securing the required funding, obtaining necessary land rights, and managing the pace of construction. Because these are matters beyond the company's control, a firm requirement that Water and Sewer file a substitution of service application by a specific date is unreasonable and unlawful. Thus, rehearing should be granted for the purpose of modifying the order to provide that Water and Sewer file a substitution of service application at the earliest possible date.

### **Conclusion:**

Water and Sewer recognizes that this was a difficult case for the Commission due to the magnitude of the increase and the impact on the company's small customer base and appreciates that the Commission reached a decision that was, for the most part, based on the evidence and the law. However, at minimum, rehearing must be granted to correct the error in the calculation of the allowance for insurance expense. The company urges the Commission to make this correction as expeditiously as possible so as to avoid the customer confusion that will result if a second customer notice must be sent to advise customers of the additional increase. Thus, Water

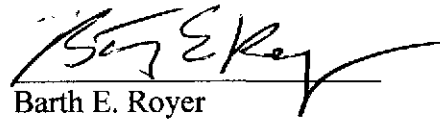
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<sup>62</sup> See Opinion and Order, 26.

<sup>63</sup> *Id.*

and Sewer respectfully requests that Commission grant its application for rehearing, authorize the filing of the revised tariff sheets set forth in Exhibit E, and approve the customer notice set forth in Exhibit F. However, if the Commission cannot issue its entry on rehearing in time for the revised customer notice to be mailed in advance of the October bills, the Water and Sewer respectfully requests that the revised rate sheet set forth in Exhibit G and the proposed second customer notice set forth in Exhibit H be approved.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Barth E. Royer", with a long horizontal stroke extending to the right.

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Attorney for Water and Sewer LLC

**EXHIBIT A**

**(Opinion and Order Schedule C-3.7)**

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>(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

## **EXHIBIT B**

**(Corrected Opinion and Order Schedule C-3.7)**

# CORRECTED O&O SCHEDULE C-3.7

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

(1)	Adjusted Insurance Expense (a)	\$ 12,035.22
(2)	Test Year Insurance Expense (b)	\$ 25,165.94
(3)	Adjustment (1) - (2)	<u><u>\$ (13,130.72)</u></u>

### Corrected Staff Schedule WPC-3.7:

(4)	Pollution Expense - Acct. 9240 (a)		
	(c) Wells Fargo Insurance	\$ 433.28	
	Multiply (a) x 12 months	<u>5,199.36</u>	
	Sewer Operation Portion (d) / 2		\$ 2,599.68
(5)	Commercial Policy - Acct. 9240, 9242 (a)		
	(c) Westfield Insurance \$767.49 + \$328.93) * 12 )		
	(i) Property	\$ 328.93	
	(ii) Umbrella	<u>767.49</u>	
	Total (a)	<u>1,096.42</u>	
	Multiply (a) x 12 months	<u>13,157.04</u>	
(6)	Water Insurance Credit	<u>(3,048.00)</u>	
(7)	Total Commercial (5) + (6)		10,109.04
(8)	Adjust Liability Coverage (Included in Commercial Policy Annualization)		
	(d) Liability Coverage	1,347.00	
	Assigned to RFRA (d) / 2		(673.50)
(9)	Net Commercial Policy (7) + (8)	10,109.04	<u>9,435.54</u>
(10)	Adjusted Test Year Insurance Cost (4) + (10)		<u><u>\$12,035.22</u></u>

- (a) Refer to Staff's Text and Staff's Workpaper WPC3.7
- (b) Applicant's 2010 PUCO Annual Report
- (c) Applicant Invoices and General Ledger
- (d) Applicant Exhibit 5 Wells Fargo Invoice (Attached)

## **EXHIBIT C**

**(Corrected Opinion and Order Schedules A-1)**

**CORRECTED O&O SCHEDULE A-1**

**Water and Sewer LLC  
Case No. 11-4509-ST-AIR  
Revised Revenue Requirements  
Through April 2013 Billing**

(1) Rate Base (a)	\$ 112,652
(2) Adjusted Operating Income (b)	(24,762)
(3) Rate of Return Earned (2) / (1)	-21.98%
(4) Rate of Return Authorized	10.00%
(5) Required Operating Income (1) x (4)	11,265
(6) Income Deficiency (5) - (2)	36,027
(7) Gross Revenue Conversion Factor (c )	1.185982
(8) Revenue Increase Required (6) x (7)	42,727
(9) Revenue Increase Recommended (Limited by Original Request)	41,260
(10) Adjusted Operating Revenue	102,868
(11) Revenue Requirements (9) + (10)	\$ 144,128
(12) Increase Over Current Revenue (9) / (10)	40.11%

- (a) Corrected O&O Schedule B-1 Reflecting Change to Allowance for Insurance Expense
- (b) Corrected O&O Schedule C-2 Reflecting Change to Allowance for Insurance Expense
- (c) Corrected O&O Schedule A-1.1 Reflecting Change to Allowance for Insurance Expense



## **CORRECTED O&O SCHEDULE A-1**

**Water and Sewer LLC**  
**Case No. 11-4509-ST-AIR**  
**Revised Revenue Requirements**  
**June 2013 Billing Through October 2014 Billing**

(1) Rate Base (a)	\$ 112,030
(2) Adjusted Operating Income (b)	(21,592)
(3) Rate of Return Earned (2) / (1)	-19.27%
(4) Rate of Return Authorized	10.00%
(5) Required Operating Income (1) x (4)	11,203
(6) Income Deficiency (5) - (2)	32,795
(7) Gross Revenue Conversion Factor (c )	1.191103
(8) Revenue Increase Required (6) x (7)	39,062
(9) Revenue Increase Recommended	39,062
(10) Adjusted Operating Revenue	102,868
(11) Revenue Requirements (9) + (10)	\$ 141,930
(12) Increase Over Current Revenue (9) / (10)	37.97%

- (a) Corrected O&O Schedule B-1 Reflecting Change to Allowance for Insurance Expense and Elimination of \$3,730 of Amortized Expense
- (b) Corrected O&O Schedule C-2 Reflecting Change to Allowance for Insurance Expense and Elimination of \$3,730 of Amortized Expense
- (c) Corrected O&O Schedule A-1.1 Reflecting Change to Allowance for Insurance Expense and Elimination of \$3,730 of Amortized Expense

**CORRECTED O&O SCHEDULE A-1**

**Water and Sewer LLC**  
**Case No. 11-4509-ST-AIR**  
**Revised Revenue Requirements**  
**December 2014 Billing Through April 2019 Billing**

(1) Rate Base (a)	\$ 111,850
(2) Adjusted Operating Income (b)	(20,672)
(3) Rate of Return Earned (2) / (1)	-18.48%
(4) Rate of Return Authorized	10.00%
(5) Required Operating Income (1) x (4)	11,185
(6) Income Deficiency (5) - (2)	31,857
(7) Gross Revenue Conversion Factor (c )	1.193002
(8) Revenue Increase Required (6) x (7)	38,006
(9) Revenue Increase Recommended	38,006
(10) Adjusted Operating Revenue	102,868
(11) Revenue Requirements (9) + (10)	\$ 140,874
(12) Increase Over Current Revenue (9) / (10)	36.95%

- (a) Corrected O&O Schedule B-1 Reflecting Change to Allowance for Insurance Expense and Elimination of Additional \$1,082 in Amortized Expense
- (b) Corrected O&O Schedule C-2 Reflecting Change to Allowance for Insurance Expense and Elimination of Additional \$1,082 in Amortized Expense
- (c) Corrected O&O Schedule A-1.1 Reflecting Change to Allowance for Insurance Expense and Elimination of Additional \$1,082 in Amortized Expense

**CORRECTED O&O SCHEDULE A-1**

**Water and Sewer LLC  
Case No. 11-4509-ST-AIR  
Revised Revenue Requirements  
Commencing June 2019 Billing**

(1) Rate Base (a)	\$ 111,433
(2) Adjusted Operating Income (b)	(18,547)
(3) Rate of Return Earned (2) / (1)	-16.64%
(4) Rate of Return Authorized	10.00%
(5) Required Operating Income (1) x (4)	11,143
(6) Income Deficiency (5) - (2)	29,690
(7) Gross Revenue Conversion Factor (c )	1.197444
(8) Revenue Increase Required (6) x (7)	35,552
(9) Revenue Increase Recommended	35,552
(10) Adjusted Operating Revenue	102,868
(11) Revenue Requirements (9) + (10)	\$ 138,420
(12) Increase Over Current Revenue (9) / (10)	34.56%
(a) Corrected O&O Schedule B-1 Reflecting Change to Allowance for Insurance Expense and Elimination of Remaining \$2,500 in Amortized Expense	
(b) Corrected O&O Schedule C-2 Reflecting Change to Allowance for Insurance Expense and Elimination of Remaining \$2,500 in Amortized Expense	
(c ) Corrected O&O Schedule A-1.1 Reflecting Change to Allowance for Insurance Expense and Elimination of Remaining \$2,500 in Amortized Expense	

## **EXHIBIT D**

**(Fixed Bi-Monthly Charges Per Corrected Opinion and Order Schedules A-1)**

	Bills	Customers	Current Rate	Current Revenue	New Rate	New Revenue	Increase	% Increase	
1	Base Rates	6	77	\$ 221.69	\$ 102,421	\$ 310.61	\$ 143,502	\$ 41,081	40.11%
2	Late Payment			0.435977%	447		626	\$ 179	40.04%
3	Total Revenue						<u>\$ 144,128</u>	<u>\$ 41,260</u>	40.11%
							<u>\$ 144,128</u>		

Corrected O&O Revenue Requirement

\$ 144,128

**WATER AND SEWER LLC**  
**Case No. 11-4509-ST-AIR**  
**Proof of Rate Calculation**  
**June 2013 Billing Through October 2014 Billing**

	Bills	Customers	Current Rate	Current Revenue	New Rate	New Revenue	Increase	% Increase	
1	Base Rates	6	77	\$ 304.50	\$ 140,679	\$ 305.87	\$ 141,312	\$ 633	0.45%
2	Late Payment		0.435977%	613		616	\$ 3	0.49%	
3	Total Revenue			<u>\$ 141,292</u>		<u>\$ 141,928</u>	<u>\$ 636</u>	<u>0.45%</u>	
Corrected O&O Revenue Requirement Eliminating:									
						<u>\$ 141,930</u>			
				Road Repair Amortization	\$	3,730			

**WATER AND SEWER LLC**  
**Case No. 11-4509-ST-AIR**  
**Proof of Rate Calculation**  
**December 2014 Billing Through April 2019 Billing**

	Bills	Customers	Current Rate	Current Revenue	New Rate	New Revenue	Increase	% Increase	
1	Base Rates	6	77	\$ 296.27	\$ 136,877	\$ 303.59	\$ 140,259	\$ 3,382	2.47%
2	Late Payment			0.435977%	597		611	\$ 14	2.35%
3	Total Revenue			<u>\$ 137,474</u>		<u>\$ 140,870</u>	<u>\$ 3,396</u>	<u>2.47%</u>	
Corrected O&O Revenue Requirement Eliminating:									
						<u>\$ 140,874</u>			
						\$ 712			
						\$ 370			
						<u>\$ 1,082</u>			

Sludge Removal  
Sludge Management Plan  
Total Change From Previous

**WATER AND SEWER LLC**  
**Case No. 11-4509-ST-AIR**  
**Proof of Rate Calculation**  
**Commencing June 2019 Billing**

	Bills	Customers	Current Rate	Current Revenue	New Rate	New Revenue	Increase	% Increase	
1	Base Rates	6	77	\$ 293.90	\$ 135,782	\$ 298.31	\$ 137,819	\$ 2,037	1.50%
2	Late Payment			0.435977%	592		601	\$ 9	1.52%
3	Total Revenue			<u>\$ 136,374</u>		<u>\$ 138,420</u>	<u>\$ 2,046</u>	<u>1.50%</u>	
Corrected O&O Revenue Requirement Eliminating:									
						<u>\$ 138,420</u>			
				Emergency Septage Hauling		\$ 2,500			



## **EXHIBIT E**

### **Proposed Tariff Sheets**

**Section ii, Third Revised Sheet No. 2**  
**Section 2, Second Revised Sheet No. 1**

Water and Sewer LLC  
3439 West Brainard Road  
Suite 260  
Woodmere, Ohio 44122

PUCO No. 3

Section ii  
Third Revised Sheet No. 2

	<u>Section</u>	<u>Sheet No.</u>	<u>Effective Date</u>
Notification of Customer Rights	1	2	12/14/09
Notification of Customer Rights (Text)	Appendix A		12/14/09, 08/16/12
Ownership	4	1	12/14/09
Prohibited Connections	3	3	12/14/09
Prohibited Discharges	3	8	03/17/10
Rates and Charges for Sewer Service	2	1	12/14/09, 08/16/12, ??/??/12
Reconnection Charge	2	1	12/14/09
Reconnection of Service	3	6-7	12/14/09
Refunds of Customer Advances in Aid of Construction	4	3-4	12/14/09, 08/16/12
Relocation of Services and Meters	3	2	12/14/09
Service Area Map	5	1	12/14/09
Service Connection and Company Service Line Installation	3	1	12/14/09, 08/16/12
Service Connection and Tap-In Fees	4	6	12/14/09
Specifications and Construction	4	1	12/14/09
Subject Index	ii	1-2	12/14/09, 08/16/12
Subsequent Connections, Service Connections and Tap-Ins	4	4-6	12/14/09, 08/16/12
Table of Contents	i	1-2	12/14/09, 08/16/12
Temporary Service	4	4	12/14/09
True-Up Adjustments	4	3	12/14/09

Issued: , 2012

Effective: , 2012

Filed Pursuant to PUCO , 2012 Entry on Rehearing  
Case No. 11-4509-ST-AIR  
Issued by Randy Kertesz, Acting President

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SECTION 2 – RATES, CHARGES, BILLING, AND PAYMENT

1. Applicability. The rates and charges for sewer service specified in this section are applicable to all customers of the Company, except to those customers that enter into Commission-approved special arrangements with the Company pursuant to Paragraph 7 of this section.
2. Bi-Monthly Fixed Rate for Sewer Service.

Service Period Ending September 30, 2012:	\$ 288.65
Through Service Periods Ending March 31, 2013:	\$ 310.61
Through Service Periods Ending September 30, 2014:	\$ 305.87
Through Service Periods Ending March 31, 2019:	\$ 303.59
Service Period Commencing April 1, 2019 and Thereafter:	\$ 298.31
3. Billing and Payment. The Company bills its customers on a bi-monthly basis. Bills will be sent to the premises served unless the customer has specified a different billing address on the application for service or subsequently notifies the Company, in writing, that a different billing address should be used. All bills are due and payable within fifteen days from the billing date. All bills shall be mailed no later than the billing date. Bills not paid within fifteen days of the billing date shall be considered delinquent and shall be subject to a late payment charge of 1.5% based on the amount of current charges only, with no compounding for future delinquencies. Delinquent bills shall also subject the customer to disconnection for nonpayment upon fourteen days written notice pursuant to Paragraph 8 of Section 3 of this tariff. Failure to receive a bill does not relieve the customer from responsibility for payment.
4. Reconnection Charge. Customers whose sewer service is disconnected pursuant to Paragraph 8 of Section 3 of this tariff shall pay a reconnection charge to have service restored equal to the actual, out-of-pocket costs the Company incurs in disconnecting and reconnecting sewer service. A statement itemizing such costs will be provided to the customer.
5. Dishonored Payment Charge. If a payment for any service, charge, or fee received by the Company is returned to the Company by a financial institution unpaid, a charge of \$35.00 will be assessed to cover the cost of processing the transaction, provided the transaction is properly processed by the Company. At the Company's option, the charge for

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Issued: , 2012

Effective: , 2012

Filed Pursuant to PUCO , 2012 Entry on Rehearing in  
Case No. 11-4509-ST-AIR  
Issued by Randy Kertesz, Acting President

**EXHIBIT F**

**(Proposed Alternative to Previously Approved Customer Notice)**

## **AN IMPORTANT NOTICE ABOUT YOUR SEWER RATES**

On September 23, 2011, Water and Sewer LLC (Water and Sewer) filed an application with the Public Utilities Commission of Ohio (PUCO) in Case No. 11-4509-ST-AIR requesting an increase in its rates for sewage disposal service. The PUCO staff investigation found that Water and Sewer had experienced a significant operating loss during the test year and recommended an increase in sewer rates that would produce between \$32,198 and \$33,539 in additional annual revenues, compared to the \$41,260 increase requested in the application.

The PUCO considered the public testimony held at the local hearing held in Richfield on April 11, 2012 and the evidence presented at the evidentiary hearing held at the PUCO's Columbus offices on May 10, 2012. On August 15, 2012, the PUCO issued its decision in the case, finding that, under the applicable law, Water and Sewer was entitled to an increase of \$38,426. Water and Sewer filed an application for rehearing, and upon reconsideration, the PUCO determined in its entry on rehearing of September \_\_, 2012 that the company was entitled to a rate increase in the full amount initially requested.

Water and Sewer's current rate structure contains a flat bi-monthly rate for sewer service and a fixed bi-monthly customer charge. The PUCO found that, because both these rate elements are fixed, there is no longer a reason for a separate customer charge. Thus, effective with your bill for the August-September service period, the two charges will be combined into a single bi-monthly charge. The charge for the August-September service period will be \$288.65, which has been prorated to recognize the effective date of the new rate. The charge for the October-November service period will be at the new rate of \$310.61. The PUCO also determined that the bi-monthly charge should be reduced after certain expenses approved in prior rate cases have been fully recovered. The first of these modest reductions will show up on your June 2013 bill.

The PUCO recognized in its order that Water and Sewer's existing rates are extremely high compared to the rates of other sewer utilities due, in large part, to the small customer base. Accordingly, the PUCO indicated its expectation that arrangements be made for Water and Sewer to exit the sewer business as promptly as possible and for a new provider to take over the service. The Village of Richfield has already undertaken studies regarding the facilities that will be required to connect Water and Sewer's sewer collection system to another sewage disposal utility, and Water and Sewer and the Village submitted a stipulation in the case describing their commitment to work together to produce this result. The stipulation also includes a requirement for periodic reports to be submitted to the PUCO staff regarding the status of these efforts. Although it is not possible at this time to project with certainty when Water and Sewer will be able to exit the sewer business, please be assured that, like you, Water and Sewer wants the transfer of its sewer service to be accomplished as promptly as possible.

Water and Sewer's goal continues to be to provide reliable service to customers as efficiently and economically as possible. Questions regarding the rate increase or any aspect of your sewer bills or service can be directed to Water and Sewer at 1-800-273-0287.

**EXHIBIT G**

**Proposed Tariff Sheet**

*Section 2, Third Revised Sheet No. 1*

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SECTION 2 – RATES, CHARGES, BILLING, AND PAYMENT

1. Applicability. The rates and charges for sewer service specified in this section are applicable to all customers of the Company, except to those customers that enter into Commission-approved special arrangements with the Company pursuant to Paragraph 7 of this section.

2. Bi-Monthly Fixed Rate for Sewer Service.

Through Service Periods Ending March 31, 2013:	\$ 310.61
Through Service Periods Ending September 30, 2014:	\$ 305.87
Through Service Periods Ending March 31, 2019:	\$ 303.59
Service Period Commencing April 1, 2019 and Thereafter:	\$ 298.31

3. Billing and Payment. The Company bills its customers on a bi-monthly basis. Bills will be sent to the premises served unless the customer has specified a different billing address on the application for service or subsequently notifies the Company, in writing, that a different billing address should be used. All bills are due and payable within fifteen days from the billing date. All bills shall be mailed no later than the billing date. Bills not paid within fifteen days of the billing date shall be considered delinquent and shall be subject to a late payment charge of 1.5% based on the amount of current charges only, with no compounding for future delinquencies. Delinquent bills shall also subject the customer to disconnection for nonpayment upon fourteen days written notice pursuant to Paragraph 8 of Section 3 of this tariff. Failure to receive a bill does not relieve the customer from responsibility for payment.
4. Reconnection Charge. Customers whose sewer service is disconnected pursuant to Paragraph 8 of Section 3 of this tariff shall pay a reconnection charge to have service restored equal to the actual, out-of-pocket costs the Company incurs in disconnecting and reconnecting sewer service. A statement itemizing such costs will be provided to the customer.
5. Dishonored Payment Charge. If a payment for any service, charge, or fee received by the Company is returned to the Company by a financial institution unpaid, a charge of \$35.00 will be assessed to cover the cost of processing the transaction, provided the transaction is properly processed by the Company. At the Company's option, the charge for

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Issued: , 2012

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Filed Pursuant to PUCO , 2012 Entry on Rehearing in  
Case No. 11-4509-ST-AIR  
Issued by Randy Kertesz, Acting President

**EXHIBIT H**

**(Proposed Second Customer Notice)**



### **AN IMPORTANT NOTICE ABOUT YOUR SEWER RATES**

Last month, you received a notice from Water and Sewer LLC (Water and Sewer) indicating that, as a result of the August 15, 2012 decision of the Public Utilities Commission of Ohio (PUCO) in Case No. 11-4509-ST-AIR, your rates for sewer service would increase. Your bill for the August-September 2012 service period reflected the approved increase, but was prorated to recognize the August 16, 2012 effective date of the new rates.


Water and Sewer subsequently filed an application for rehearing requesting the PUCO to reconsider certain findings in its August 15, 2012 opinion and order. By its entry on rehearing issued \_\_\_\_\_, 2012, the PUCO granted the application for rehearing, and authorized an increase in annual revues of \$41,260, as opposed to the \$38,426 increase originally approved. This increase translates into a fixed bi-monthly rate for sewer service of \$310.61, as compared to the \$304.50 rate previously authorized.

As explained in the earlier notice, the PUCO determined that the bi-monthly charge should be reduced after certain expenses approved in prior rate cases have been fully recovered. The first of these modest reductions will show up on your June 2013 bill.

Water and Sewer's goal continues to be to provide reliable service to customers as efficiently and economically as possible. Questions regarding the rate increase or any aspect of your sewer bills or service can be directed to Water and Sewer at 1-800-273-0287.

## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing has been served upon the following persons by electronic mail this 11th day of September 2012.

  
Barth E. Royer

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[werner.margard@puc.state.oh.us](mailto:werner.margard@puc.state.oh.us)

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