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CAMPLANDS WATER LLC EXHIBIT NO. ____

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Camplands Water, LLC, for an Increase in Rates and Charges	)))	Case No. 13-1690-WW-AIR

SUPPLEMENTAL AND REBUTTAL TESTIMONY
of
ANTHONY J. YANKEL

On Behalf of
Camplands Water LLC
P.O. Box 1270
Andover, Ohio 44003

March 25, 2014

I. INTRODUCTION

Q1. PLEASE STATE YOUR NAME, ADDRESS, AND EMPLOYMENT.

A. I am Anthony J. Yankel. I am President of Yankel and Associates, Inc. My address is 29814 Lake Road, Bay Village, Ohio, 44140.

Q. ARE YOU THE SAME ANTHONY J. YANKEL THAT FILED DIRECT TESTIMONY IN THIS CASE ON JANUARY 29, 2014?

A. Yes.

Q. WHAT WILL YOUR SUPPLEMENTAL AND REBUTTAL TESTIMONY ADDRESS?

A. I will be addressing the testimony filed by Holiday Camplands Association Inc. ("Holiday") witness Monie on January 29, 2014 as well as the testimony filed by six Staff witnesses and Mr. Kightlings for Holiday on March 20, 2014. Because I will be addressing the testimony of eight other witnesses, my testimony will be somewhat longer than usual. My rebuttal testimony will also address the changes to the Staff Report that were filed with the Staff testimony on March 20, 2014.

Q. PLEASE GIVE A HIGH LEVEL VIEW OF THE PROBLEMS YOU HAVE FOUND WITH THE STAFF REPORT, AND NOW WITH THE CORRECTED VALUES PRESENTED BY THE STAFF ON MARCH 20, 2014.

A. Camplands Water LLC's ("Utility") first objection to the Staff Report objected "to Staff's recommended revenue increase range of Revenue Requirement of $341,939 to $351,551." In its first objection, the Utility went on to state that this "range understates the amount to which Camplands is entitled ...". The midpoint of the Revenue Requirement range in the Staff Report was $346,745. Now the Staff has decreased the midpoint of its recommended Revenue Requirement range to $283,725.[1] This is a drop of $63,020 or 18% from the original Revenue Requirement that the Utility origininally stated was too low.

Of even more concern than the 18% drop from the Staff's originally recommended Revenue Requirement, is the fact that this new Revenue Requirement recommendation offered by the Staff is lower than the test year revenues of $291,306.[2] The Utility has operated for almost 30 years on the basis of Special Contracts with its two customers. It now has found itself in the position where these two customers are not willing to negotiate a rate that is acceptable to the Utility. Thus, the Utility came to the Commission and requested a rate increase—and the Staff has recommended that it receive a 3% decrease in existing rates.

The Utility's Financial Position

Q. IS THE UTILITY'S FINANCIAL POSITION AS GOOD AS THE STAFF REPORT SUGGESTS?

[1] See testimony of Staff witness Willis, Schedule A-1.
[2] See testimony of Staff witness Willis, Schedule C-2.

A. No. Although the Staff used standard regulatory methods to come up with its recommendations, the Staff's recommendation does not properly reflect the financial condition of the Utility. Later in my testimony, I will take exception to one or two of the adjustments made in the Staff Report, but here I am addressing a breakdown in the regulatory method that results in an inappropriate picture of the Utility's financial condition.

The breakdown itself partially comes about because, like the Staff stated, this is a small, family-owned utility.[3] In such situations, it has been the Commission policy to adopt a uniform rate of return for these small utilities of 10%. The use of the uniform 10% rate of return was appropriately used in the Staff Report. However, this utility is not only small, but possesses a characteristic that separates it from virtually every other utility in Ohio.

The breakdown in the regulatory method comes about because this utility is not only small, but it has recently acquired what can be considered a "relatively massive" amount of debt compared to its equity. It is this "massive" debt that took the utility from having 100% equity in 2009 to having a debt to equity ratio of 84|16 in the test year. It is the servicing of this relatively massive loan that is causing a major disconnect between what the regulatory formula states that the Utility's revenue requirement should be and what its financial situation dictates that it must be.

[3] See testimony of Staff witness Mahmud at page 3.

Q. WAS THE UTILITY'S ACQUIRING OF THIS LOAN IN ANY WAY INAPPROPRIATE?

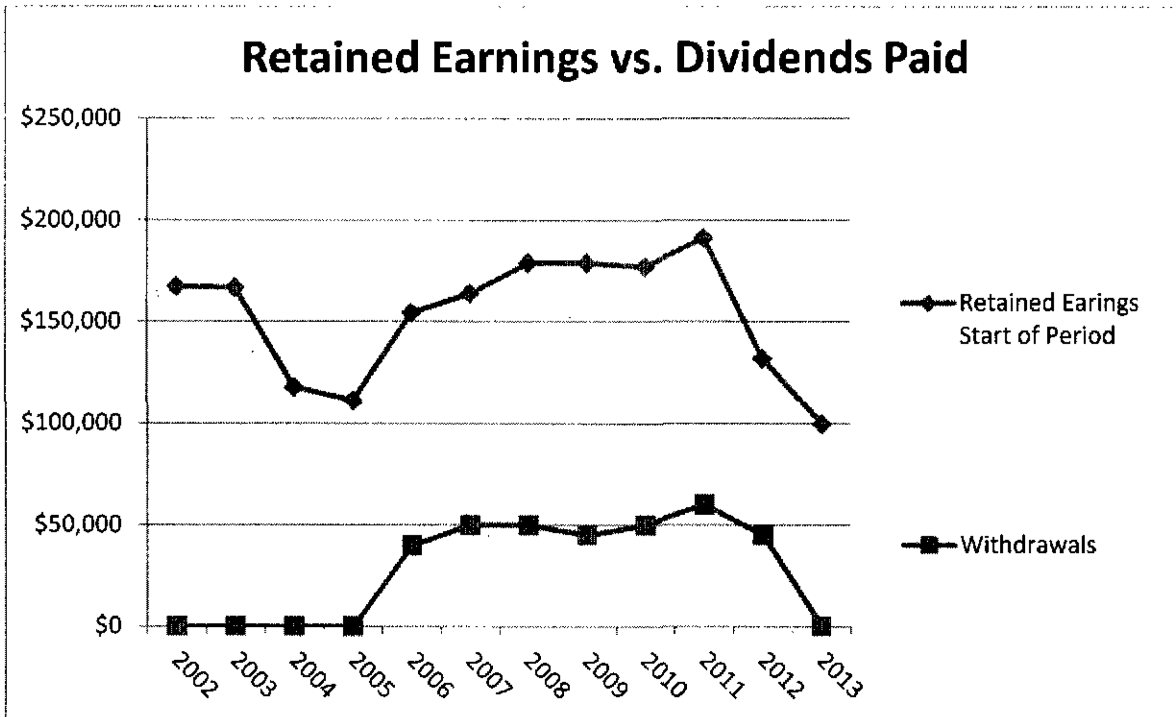
A. No. I believe that all parties would agree that the acquiring of this loan was appropriate. The Utility is very small and only had a small amount of equity. The EPA required that the water quality be improved. The Utility needed to undertake a major construction project in order to bring about a highly desired increase in the water quality. The cost of the new treatment plant was over four times the amount of equity that was in the plant. The new treatment plant was needed and the load was obtained under good terms. The Utility would have been remiss to have not taken the loan and made the improvements.

Q. PLEASE EXPLAIN HOW THE REPAYMENT OF THIS RELATIVELY MASSIVE LOAN HAS IMPACTED THE UTILITY'S FINANCIAL POSITION.

A. There are two ways to demonstrate that the Utility is having financial difficultly because of this relatively massive loan. First, a look at the retained earnings compared to the dividends paid demonstrates that retained earnings and/or dividends have had to greatly decrease once the loan payments started. Second, a review of the cash on hand indicates that cash is rapidly running out, in spite of the increase in revenues that occurred when the treatment plant was completed. In fact, the cash on hand will soon run out, even with the full revenue now being collected, let alone the 3% decrease in revenues that is advocated by the Staff.

Q. PLEASE EXPLAIN HOW THE RETAINED EARNINGS AND/OR DIVIDENDS HAVE HAD TO GREATLY DECREASE ONCE THE LOAN PAYMENTS STARTED.

A. Attachment A details the retained earnings and dividends paid during the past 11 years. For the sake of simplicity, I have reproduced the graph of retained earnings vs. dividends paid below. Mr. Goldenberg took over the Utility during 2001 so this graph also demonstrates his performance since he has been involved. Mr. Goldenberg's performance will be discussed later in this testimony.



The graph demonstrates that when Mr. Goldenberg took over the utility, the retained earnings were at approximately $167,000 for the first two years. At that time, no dividends were paid. In 2004 and 2005, retained earnings were below the $167,000 level, and once again, no dividends were taken. It wasn't until 2006, when retained earnings rose significantly that a dividend was first taken. Even with a $40,000 dividend being paid, the retained earnings at the end of 2006 rose to $164,000.

Dividends of $45,000 to $50,000 continued to be paid during 2007 through 2010. Over this timeframe, even with this level of dividends being paid, the retained earnings increased from $164,000 to $191,000. During 2010 there was an increase in revenue of $13,400 because of the contract with Holiday that called for an increase in monthly charges of $1,675 once the construction of the treatment plant was 50% complete.

Retained earnings at the beginning of 2011 were at a high of $191,000. Because to the completion of the construction of the treatment plant and the terms of the Holiday contract, the revenue for 2011 was scheduled to increase by $35,175 over 2009 levels (or $21,775 over 2010 levels). In 2011 a dividend of $60,000 was declared. As it turned out, the financial statements that were developed after the close of the year showed that profit had greatly decreased during the year. The 2011financial statements showed that there was almost a $60,000 decrease in retained earnings.

In 2012, with retained earnings at the beginning of the year at a level of $132,000, and revenues were scheduled to increase by $40,200 over 2009 levels ($25,125 over 2010 levels and $3,350 over 2011 levels). In expectation of a better financial position than the year before, a dividend of only $45,000 was declared for 2012. As it turned out, profit had increased, but not to previous levels. As a result of the smaller dividend and only a modest increase in profit, the retained earnings dropped by $31,000.

In 2013, with retained earnings at the beginning of the year at $100,000, no dividend was declared. Holiday did not comment on the fact that this was an appropriate action on the part of the utility.

Q. HAS THE DIVIDEND WITHDRAWALS OF THE UTILITY BEEN INAPPROPRIATE IN ANY WAY?

A. No. There are clearly the two years that were pointed to by Holiday where retained earnings dropped significantly after a dividend was declared. However, these two years that have been singled out by the Holiday are clearly the exceptions. Out of the 12 years shown on the graph when Mr. Goldenberg was running the utility, there were 5 years in which no dividend was paid. Of the remaining 7 years when dividends were taken, retained earnings increased during 3 of the years, very slightly decreased during 2 years, and had large decreased during the two years singled out by Holiday.

Q. WHAT HAPPENED IN 2011, 2012, AND 2013 TO CAUSE BOTH THE RETAINED EARNINGS AND THE DIVIDENDS PAID TO DROP SO MUCH?

A. The drop in retained earnings and dividends paid came about in spite of an overall increase of $40,200 in revenue. An increase in revenues of $40,200 may not seem like much, but this represented a 16.5% increase over the contract revenues received from Holiday and Lake Village. This was a substantial increase that occurred between 2011, 2012 and 2013 when there was a reduction in retained earnings and dividends paid. The 16.5% revenue increase mitigated the problem, but obviously not enough.

Q. WITH DIVIDENDS VARYING EACH YEAR, IS THERE A WAY TO DEMONSTRATE THE CHANGES THAT ARE OCCURRING WITH RETAINED EARNINGS AND DIVIDENDS PAID?

A. Yes. The following table lists the values of "beginning of the year" retained earnings and dividends paid since 2006.

	Retained Earnings	Dividends
2006	154,502	40,000
2007	163,905	50,000
2008	178,843	50,000
2009	178,830	45,000
2010	177,050	50,000
2011	191,210	60,000
2012	131,859	45,000
2013	99,642	0

Not counting 2013, for seven years, the Utility paid out on average of a little less than $50,000 in dividends per year. Coming into 2011 (the year when the loan payments started) the retained earnings increased each year with the average of $50,000 being paid out in dividends. After the loan payments started in 2011, the retained earnings dropped $60,000 by the end of 2011 and another $32,000 in 2012. This was an average over these two years of $46,000.

Q. THERE WERE NO DIVIDENDS PAID IN 2013. WAS THE GENERAL POLICY OF PAYING $50,000 PER YEAR IN DIVIDENDS APPROPRIATE, FOR THE YEAR 2013, WHEN NO DIVIDENDS WERE PAID?

A. Yes. The Staff proposes a rate base for the Utility of $747,583.[4] Although I do not agree with this figure, I will use it for purpose of illustration. With this level of rate base and the

[4] See testimony of Staff witness Willis on Schedule B-1 revised.

Commission's 10% rate of return, the Utility should have been able to make approximate $75,000 of return in 2013. From this amount, it would appear that paying $50,000 dividend would have been appropriate.

However, given the drastic drop that was taking place in retained earnings, the Utility did not declare a dividend in 2013, and I assume that the Staff and Holiday would have been up-in-arms if it had. To make matters worse in the future, the midpoint of the revenue recommendation of the Staff is $7,581 less than the test year contract revenues from Holiday and Lake Village.

Q. YOU INDICATED THAT THERE WERE TWO WAYS TO DEMONSTRATE THAT THE UTILITY IS HAVING FINANCIAL DIFFICULTLY BECAUSE OF THIS RELATIVELY MASSIVE LOAN. YOU INDICATED THAT THE SECOND WAY TO DEMONSTRATE THE UTILITY'S FINANCIAL DIFFICULTIES WAS THAT A REVIEW OF THE CASH ON HAND INDICATES THAT CASH IS RAPIDLY RUNNING OUT, IN SPITE OF THE INCREASE IN REVENUES THAT OCCURRED WHEN THE TREATMENT PLANT WAS COMPLETED. PLEASE EXPLAIN THIS FURTHER.

A. I have already demonstrated above that the retained earnings and the dividends paid have rapidly fallen since the loan repayments started. A review of cash on hand demonstrates the same problem. The table below lists the month ending cash balances in the Utility's checking account:

Month Ending Cash Balances

	2010	2011	2012	2013
J	32,588	89,576	64,217	40,586
F	37,969	72,162	40,197	51,921
M	57,451	69,106	63,521	53,122
A	61,690	94,730	54,970	45,980
M	59,539	109,443	54,414	32,503
J	60,785	72,157	51,988	18,314
J	57,110	80,741	48,211	34,221
A	91,470	90,345	73,944	45,412
S	96,033	122,465	82,829	49,553
O	101,758	134,677	84,794	59,565
N	110,382	135,514	103,293	75,147
D	64,724	46,280	31,508	49,887

By themselves, the figures in this table do not present a clear picture of the financial position. The problem is that at the end of each year, a different dividend was paid, and thus distorting the rest of the cash flow. As demonstrated above, the dividends paid each year for 2010--2013 were: $50,000; $60,000; $45,000; and $0. In order to get a clearer picture of the cash flow (absent the impact of dividends paid), I redid the above table under the assumption that a uniform $50,000 of dividends were paid each year. The following figures result:

Cash Balance with $50,000 Dividends

	2010	2011	2012	2013
J	32,588	89,576	74,217	45,586
F	37,969	72,162	50,197	56,921
M	57,451	69,106	73,521	58,122
A	61,690	94,730	64,970	50,980
M	59,539	109,443	64,414	37,503
J	60,785	72,157	61,988	23,314
J	57,110	80,741	58,211	39,221
A	91,470	90,345	83,944	50,412
S	96,033	122,465	92,829	54,553
O	101,758	134,677	94,794	64,565
N	110,382	135,514	113,293	80,147
D	64,724	56,280	36,508	4,887

The cash balances remain the same from January 2010 through November 2011 because the dividend in 2010 remained at $50,000. The December 2011 through November 2012 cash balances went up $10,000 because the 2011 dividend in this example was reduce by this amount. The December 2012 through November 2013 balances in this example went up only $5,000 because the dividend in 2011 was reduced by $10,000, but the dividend in 2012 was increased by $5,000. This brings us to the change in the cash figure for December 2013. Going into December 2013, the cash position was increased by the same $5,000 that the rest of 2013 was. However, taking a $50,000 dividend in December 2013, would have lowered the actual cash position by $45,000 ($5,000 less $50,000).

Q. WOULD THE SIMPLE SOLUTION BE FOR THE UTILITY TO SIMPLY NOT PAY A DIVIDEND IN ORDER TO MAINTAIN ITS CASH FLOW?

A. Not paying a dividend is the stopgap measure the Utility took in 2013 in order to maintain its cash position. It is not a long-term solution. If the Staff believes that the Utility's contract revenue should be decreased by $7,500 per year and that the Utility should make a return of $75,000 per year, then the Utility should certainly be making dividend payments. Not paying dividends is not a solution.

Additionally, looking at the actual cash position, it can be seen that the cash-on-hand is falling from one year to the next. That trend is highlighted in the second table that assumes a uniform dividend being declared each year. As long as the same realistic dividend is assumed for each year, there will be a continuing decrease in the cash-on-hand position because the impact of the loan payments.

<u>Solution to the Problem with the Regulatory Method</u>

Q. IS THERE A SOLUTION TO THE UNIQUE REGULATORY PROBLEM THAT INVOLVES THIS SMALL UTILITY WITH MAJOR LOAN PAYMENTS FOR ITS SIZE?

A. Yes. There are a couple of simple changes to the regulatory method used in this case that will greatly alleviate the financial problems that the Utility faces. The first change is suggested by the loan itself. The loan has a term of 20 years. The Utility has to come up with the cash to pay for the cost of the new facility in 20 years plus an interest rate to cover the loan.

The Utility did not have the money upfront to pay for the construction project so therefore it got the loan. The only place that the Utility is going to get the money to pay for the facility in 20 years (plus interest), is from depreciation expense. Unfortunately, the Staff is depreciating this plant over 50 years. This certainly creates a cash flow problem for a very small utility. The contractor that the Utility hired for the construction project indicates that the life expectancy of this facility is no longer than 20 years. The Utility is not looking for a battle of experts as to what the proper life expectancy of this project is, but the Utility believes that the only way it can make payments on the principle of the loan is to have the depreciation of this plant on the same basis as the loan—20 years. Without this adjustment to the Staff's revenue recommendation, the Utility's cash flow position will weaken to the point where it will no longer be able to make its loan payments. This point could very well occur for the payment that is due in June of this year, if not the December payment.

Q. ARE THERE ANY OTHER CHANGES THAT SHOULD BE MADE TO THE STAFF'S CALCULATION OF A REVENUE REQUIREMENT THAT WOULD SPECIFICALLY ADDRESS THIS PROBLEM WITH THE LOAD PAYMENT NOT BEING COVERED?

A. Yes. The Staff has removed as Contributions In Aid of Construction ("CIAC") the payments that were made pursuant to the contract with Holiday. These payments amounted to $118,925. By having this level of CIAC that is related to the construction project removed from rate base, the Utility is being denied a return on this amount, and the depreciation expense associated with it. However, the loan payment is not reduced to take into account the CIAC adjustment made by the Staff. The Staff's adjustment makes repayment of the loan even more difficult.

Q. THE STAFF HAS CLAIMED THAT THE INCREASED PAYMENTS FROM HOLIDAY THAT WERE ASSOCIATED WITH THE COMPLETION OF THE CONSTRUCTION PROJECT ARE TO BE TREATED AS CIAC. IS THIS A CORRECT TREATMENT OF THESE REVENUES?

A. No. The contract dated August 21, 2009 does not support the Staff's position that these payments should be considered CIAC. Contrary to the Staff's position, these payments are simply a rate increase that was needed to partially offset the impact of the capital costs and expenses associated with the construction project after it was 50% complete and after it was 100% complete. In relevant part, the contract states:

1. Subject to the approval of the PUCO, Association shall pay to Utility the following rates:

a. For the period of September 1, 2009 through a first date certain when 50% of the Ohio EPA Loan Agreement funds have been utilized for structural improvements to the waterworks system
<u>Unmetered Services</u>
$13,000 per month

b. For the period from said first date certain to December 31, 2011

<u>Unmetered Services</u>
$14,950 per month

c. In addition to the water rate recited in paragraph 1b, the association shall pay an additional amount not to exceed $3,350 per month toward financing of the Ohio EPA loan, to be paid in two steps as follows:

For the period from said first date certain to a second date certain when all of the Ohio EPA loan funds have been utilized and structural improvements to the waterworks system have been completed, payment in the amount of $1,675 per month.

For the period from said second date certain to December 31, 2011 an additional payment in the amount of $1,675 per month.

Q. WHAT ABOUT THIS CONTRACT LANGUAGE DICTATES THAT IT IS ESSENTIALLY A RATE INCREASE THAT IS DESIGNED TO PARTIALLY OFFSET THE UTILITY'S EXPENSES ASSOCIATED WITH THE CONSTRUCTION PROJECT?

A. There are two obvious aspects of this contract language that makes it clear that these "additional" payments are not CIAC, but a phase-in of a rate increase that is timed to the need to increase rates. I have been told by the President of the Utility that the payments were tied to a given level of construction completion so that Holiday would be assured that there would be no rate increase unless the construction project actually took place. By tying these additional payments to stages of construction completion, Holiday was assured that the Utility would be providing additional plant and services for the extra payments. The first payment of $1,675 per month (50% of the maximum amount of $3,350) was tied to completion of at least half of the construction project. The full $3,350 per month payment was tied to the construction being completed. Thus, no payments were made ahead of the construction taking place. Thus, the payments were made after completion of construction, and not before or during construction.

The second aspect of the contract language that makes it clear that these payments were not CIAC, is the level of the payments themselves. The monthly payment of $3,350 equates to $40,200 per year. With the initial loan payments at $53,000 per year, the additional payments by Holiday did not cover the payments on the loan, let alone the additional operating expenses associated with the new plant or depreciation expense.

Q. WHAT IS THE IMPACT OF THE STAFF CONSIDERING THESE PAYMENTS AS CIAC?

A. By inappropriately considering these "additional" payments that were tied to construction <u>completion</u> as CIAC, the Staff inappropriately removes $118,925 (the equivalent of all payments made by Holiday since May 2010 from rate base. Thus, the Staff removed this amount from the calculation of a depreciation expense and as a basis for calculating a return on investment.

Q. PLEASE SUMMARIZE THE SOLUTIONS YOU HAVE OFFERED TO ADDRESS THE PROBLEM THAT THE LOAN PAYMENTS ARE PUTTING THE UTILITY IN FINANCIAL STRESS BECAUSE THEY ARE NOT ADDRESSED IN THE TRADITIONAL REGULATORY METHOD.

A. The loan payments are approximately $53,000 per year. The principle payments are approximately $43,000 per years. At a minimum, this principle payment needs to be covered. My review of the retained earnings, dividends paid, and cash-on-hand all suggest that there is an annual shortfall of approximately $40,000 to$50,000 since the loan payments started. At a minimum, in order to remedy this situation by acquiring an additional $43,000, I have proposed that the depreciation rate used on the new facility costs be placed at 5% in accordance with the length of the loan as opposed to 2% as recommended by the Staff. I also proposed that the Staff not treat $118,925 of the new facility costs as CIAC so that the Utility can earn a return on this investment ($118,925) and depreciate it over the life of the loan—which did not treat it as CIAC.

Utility President's Salary/Administrative Fee

Q. THE STAFF HAS RECOMMENDED AN ADJUSTMENT TO THE SALARY OF THE UTILITY PRESIDENT, MR. GOLDENBERG.[5] IS THIS ADJUSTMENT APPROPRIATE?

A. No. Mr. Goldenberg is paid $25,000 per year for his management of the Utility. The Staff made an adjustment to remove $9,400 or 38% of his salary. Although it is a small utility, it still has to be managed in a manner that insures that all bills are paid, all appropriate legal and regulatory filings are made, and that the best reasonable service can be provided to the customers. Yes, the cost of managing a small utility is far less than the cost of managing a major utility, but the price of this management will never drop to zero. Even the minimum wage is $8.50 per hour.

Q. WHAT BASIS DID THE STAFF GIVE FOR STATING THAT MR. GOLDENBERG SHOULD ONLY BE PAID $15,600 PER YEAR?

A. The Staff simply assumed an hourly rate of $200 per hour and then attempted to calculate the number of hours per year that Mr. Goldenberg worked on Utility matters. It is the calculation of the number of hours that Mr. Goldenberg works on Utility matters that is completely lacking in support. First of all, the only basis for the Staff's determination of the number of hours worked by Mr. Goldenberg is a conversation[6] with the plant operator. Thus, the only evidence that the Staff used was the recollection of the plant operator of how often he talked to Mr. Goldenberg over the period of a year.

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[5] See testimony of Staff witness Berringer starting on page 3.
[6] See testimony of Staff witness Berringer at page 4.

This estimate in itself is simply the recollection of one person. However, to make the Staff's use of this person's "estimate" completely absurd, the plant operator was also asked how long Mr. Goldenberg talked to other individuals regarding Utility business. The plant operator said that Mr. Goldenberg also talked to the accountant and gave an estimate of the time spent, "although he indicated he could not speak with certainty"[7]. The plant operator may give an estimate of how long he spends talking with Mr. Goldenberg, but he certainly does not know how much time Mr. Goldenberg spends preparing for those calls, or how much time he spends after the call, in order to act upon what was discussed. The plant operator admitted that he did not know how much time Mr. Goldenberg spent talking to the accountant. The plant operator did not specify how much time Mr. Goldenberg spent talking to other individuals. And the plant operator has no idea how much time Mr. Goldenberg spends just reviewing books and records of the Utility and other related matters. Additionally, Mr. Goldenberg is entitled to some consideration for his management responsibility in addition to his hours worked. The Staff's proposed adjustment to this salary is baseless.

Q. HAS THE STAFF PREVIOUSLY ATTEMPTED TO REDUCE THE ADMINISTRATIVE FEES BEING CHARGED FOR OPERATING THIS UTILITY?

A. Yes. The last time the Staff reviewed the administrative fees for this utility was in Case No. 85-418-WW-AIR—the last time that this utility filed a rate case. In that case from 28 years ago the management fee was $24,200, but the Staff attempted to adjust it down to $19,400. There are two points of interest here. First, the Staff proposed management fee from the case 28 years ago was higher than the $15,600 administrative fee proposed in this case. Second, the Staff gives no

[7] See testimony of Staff witness Berringer at page 4.

allows for inflation. I do not have no specific data, but I believe that almost everyone would say that their pay has more than doubled in the last 28 years. If the Staff thought an administrative fee of $19,400 was appropriate back in 1985, then a fee of $38,400 should be acceptable today. Once again, the Staff's proposed administrative fee in this case should not be adopted.

<u>Rate Case Expense</u>

Q. THE STAFF PROPOSES A RATE CASE EXPENSE VALUE OF $20,000 TO BE AMORTIZED OVER THREE YEARS.[8] DO YOU AGREE WITH THE STAFF'S POSITION?

A. In part. I agree with the amortization period of three years. The level of expense of $20,000 is less than has been incurred to date. Although this is a small utility, it takes almost the same level of effort to do this case as it would for a major utility. This particular case included the development of tariff sheets from the ground up because none had previously existed. The case had to be prepared, responses needed to be made to interrogatories, a deposition was held, and multiple efforts were made to settle this case. As of March 12, 2014 the Utility has spent $21,223.78 on this case, and it is still not over.

<u>Metering and Other Costs</u>

Q. DID THE STAFF REPORT MAKE ANY RECOMMENDATIONS REGARDING THE METERING AT THE UTILITY?

A. Yes. Recommendations came on pages 21 and 25. On page 25 of the Staff Report it stated that the "Staff recommends that the Commission order the Company to repair or replace its plant production meter within 60 days of the Opinion and Order in this case..." However, Staff stated

[8] See testimony of Staff witness Willis at page 4.

in its testimony that: "It has been brought to Staff's attention that the meters are fairly new and operate properly."[9]

Q. IS THERE A REASON WHY THESE "METERS ARE FAIRLY NEW AND OPERATE PROPERLY"?

A. Yes. Because the Staff, during its visits to the Utility, stated that the meters were not operating properly and needed to be replaced, the Utility went out and replaced those meters during February 2014 at a cost of $6,525.67. This is an extra $6,500 that is coming out of the Utility's already low cash-on-hand in 2014.

Q. WERE THERE OTHER EXPENSES THAT WERE INCURRED IN 2014 AT THE URGING OF THE STAFF DURING THE COURSE OF THIS CASE?

A. Yes. Both the Staff and Mr. Goldenberg have been concerned about the salary paid to the plant operator. The plant operator had not had a raise for several years. I believe that all parties (including Holiday and Lake Village) highly value the plant operator and recognize that without him, service quality may not be as good as it is at present. Given this, the plant operator has been given a $3,000 per year raise. However, this is once again additional money that is being paid out in 2014 and that was not addressed in the test year.

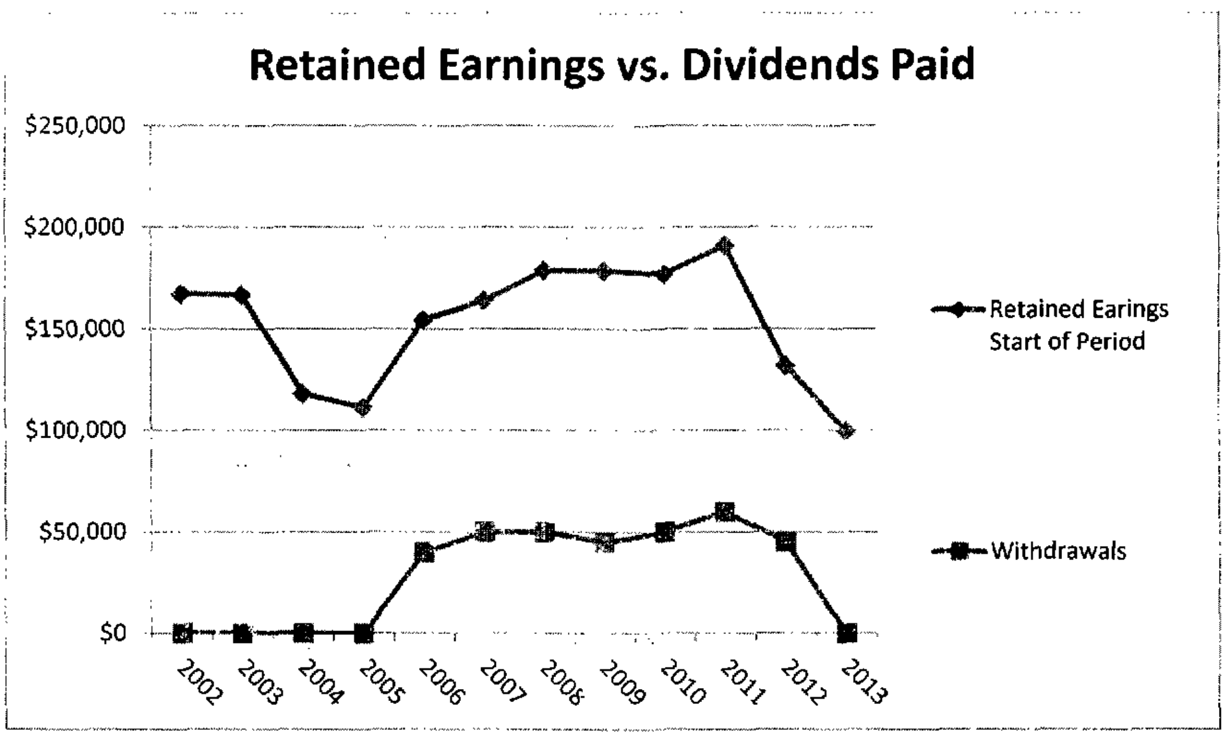
Holiday's Criticism That the Utility Has Withdrawn Too Much Capital

Q. HOLIDAY STRONGLY SUGGEST THAT THE UTILITY IS NOT BEING PROPERLY OPERATED BECAUSE IT HAS TAKEN A TOTAL OF $105,000 IN DIVIDENDS

[9] See testimony of Staff witness Daly at page 4

DURING THE YEARS 2011 AND 2012 WHILE RETAINED EARNINGS DROPPED BY ALMOST SAME AMOUNT. IS THIS CRITICISM APPROPRIATE?

A. No. This criticism only takes a very narrow view of how the Utility has been operated under Mr. Goldenberg's supervision. Mr. Goldenberg only started operating this utility in 2001. A far more accurate demonstration of the way he has managed retained earnings and the payment of dividends would be to look over the changes in these two parameters during the time that he has been in charge. Attachment A details the retained earnings and dividends paid since he took charge. This data simply came from the utility's annual reports which both the Staff and Holiday have easy access. This is the same data and graph that I presented earlier in my testimony and, for the sake of simplicity, I have reproduced the graph of retained earnings vs. dividends below.



The graph demonstrates that when Mr. Goldenberg took over the utility the retained earnings were at approximately $167,000 for the first two years. At that time, no dividends were paid. In

2004 and 2005, retained earnings were below the $167,000 level, and once again, no dividends were approved or paid. It wasn't until 2006, when retained earnings rose significantly that a dividend was approved and paid. Even with a $40,000 dividend being paid, the retained earnings at the end of 2006 rose to over $150,000.

Dividends of $45,000 to $50,000 continued to be paid during 2007 through 2010. Over this timeframe, even with this level of dividends being paid, the retained earnings increased from $164,000 to $191,000. In 2011, with retained earnings at the beginning of the year was at its high of $191,000, a dividend of $60,000 was approved and paid. This is the first of the two dividends that Holiday addressed. As it turned out, the financial statements that were developed after the close of the year showed that profit had greatly decreased during the year. Thus, the financial statements showed that there was almost a $60,000 decrease in retained earnings.

In 2012, with retained earnings at the beginning of the year at a level of $132,000, and the expectation of greater profits than the year before, a dividend of only $45,000 was paid. As it turned out, profit had increased, but not to previous years' levels. As a result of the smaller dividend and only a modest increase in profit, the retained earnings dropped by $31,000. These are the only two years that were addressed by Holiday as the basis for the claim of the utility's inappropriate policy of paying out dividends.

In 2013, with retained earnings at the beginning of the year at $100,000, no dividend was approved and paid. Holiday did not comment on the fact that this was an appropriate action on the part of the utility.

Q. HAS THE DIVIDEND WITHDRAWALS OF THE UTILITY BEEN INAPPROPRIATE IN ANY WAY?

A. No. There are clearly the two years that were pointed to by Holiday where retained earnings dropped significantly after a dividend was declared. However, these two years that have been singled out by Holiday are clearly the exceptions. Out of the 12 years shown on the graph when Mr. Goldenberg was managing the utility, there were 5 years in which no dividend was paid. Of the remaining 7 years when dividends were approved and paid, retained earnings increased during 3 of the years, very slightly decreased during 2 years, and had large decreases during the two years singled out by Holiday.

Q. WHAT IS SIGNIFICANT ABOUT THE YEARS 2011 AND 2012 THAT WOULD HAVE IMPACTED PROFIT AND RETAINED EARNINGS?

A. As stated above, these years are unique in the history of this utility. A major construction project had just been completed that was designed to improve the water quality of the system. The project was financed by a loan through the Ohio Water Development Authority. Loan repayments began in 2011. These payments amounted to $53,000 per year. Over the 2011-2012 timeframe, this total was $106,000, which was greater than the $91,600 drop in retained earnings that occurred over this same timeframe. In addition to the loan payments that were made, costs to the utility were increasing and no major increase in rates occurred except for an increase in Holiday's contract rates that was tied to the completion of construction project and were designed to offset some of the costs that resulted from that project.

Holiday's Criticism of the Utilities Debt to Equity Ratio

Q. HOLIDAY CRITICIZES THE UTILITY'S DEBT TO EQUITY RATIO.[10] IS THIS CRITICISM APPROPRIATE?

A. No. Just like the criticism of the paying of dividends in 2011 and 2012, this criticism only takes on value if it is not viewed in the context of this particular utility. Holiday's criticism is that during the test year the debt to equity ratio was 84|16 when Holiday thought a ratio of 60|40 would be better. This 60|40 ratio may be appropriate for a large company, but it does not fit the circumstances for this utility where things are small and changes are often made in a lumpy fashion. In fact the debt to equity ratio in 2009 was 0|100 (no debt and all equity). The Utility operated without debt for a long time and it is only because of the financing of the recent construction project that there was any debt at all. However, given the size of that construction project, the debt to equity ratio gives the appearance of being out of line. As the debt is paid off, this ratio will reach the suggested ration of 60|40, and in fact will continue to decrease until it once again reaches the level of 0|100.

Q. WITH RESPECT TO THE DEBT TO EQUITY RATIO, ARE YOUR COMMENTS ONLY ADDRESSING THE COMMENTS OF HOLIDAY?

A. No. The Staff seems to have somewhat bought in to the suggestion that somehow the debt to equity ratio of 84|16 may be inappropriate.[11] The Staff suggests that: "If the Commission was concerned ... the Commission may order a freeze on the withdrawal of

[10] See testimony of Holiday witness Monie beginning on page 13.
[11] See testimony of Staff witness Mamhud at page 4.

the Company's equity capital and that "the Company's retained earnings be held in a special escrow account …".

As I explained in my testimony above, the Utility's withdrawal of capital under Mr. Goldenberg's direction has been conservative and generally in line with the level of retained earnings. The only time that dividends were paid when the retain earnings at the beginning of the year dropped was in 2012. Other than that, dividends were either not paid out, or paid out after a year where there was a net gain in retained earnings. Furthermore, as stated above, the debt to equity ratio only took on the appearance of being skewed because of the major plant addition. There is no need for the Commission to place the Utility's retained earnings in a special escrow account.

Lake Village contract increase associated with construction completion

Q. DID THE UTILITY NEGOTIATE A CONTRACT WITH LAKE VILLAGE, SIMILAR TO WHAT IT DID WITH HOLIDAY, WHICH WOULD INCREASE RATES SO THAT IT COULD PROCEED WITH ITS LOAN AGREEMENT ASSOCIATED WITH THE PROPOSED CONSTRUCTION PROJECT?

A. On May 8, 2009 a member of the Staff sent the Utility a letter indicating that it came to her attention that the utility may be charging rates that were not approved by the Commission.[12] The letter stated in part:

> If the Company is charging rates other than those approved by the PUCO, the Company should cease charging those rates and revert to billing the PUCO-approved rates.

[12] See Attachment B

Because of this May 8, 2009 letter from the Staff, the first signed agreement between the Utility and Holiday was brought before the Commission in Case No. 09-425-WW-AEC on May 20, 2009. The date that contract was entered into between the Utility and Holiday was February 21, 2009. On June 2, 2009 the written contract between the Utility and Lake Village was brought before the Commission in Case No. 09-465-WW-AEC. The written contract between the Utility and Lake Village was entered into on May 16, 2009. Both the Lake Village and the Holiday contracts were for one year and were considered to be a stopgap measure to increase the rates somewhat, ahead of the expected completion of the construction project, and new rates being put into effect at that time. Admittedly these contracts should have been taken to the Commission for approval before being implemented, but there was a concern that some increases in rates were needed so that the Utility would qualify for the construction loan it was seeking.

Q. WHAT HAPPENED AFTER THESE TWO CASES WERE FILED?

A. An amended application was filed in the Holiday Case No. 09-425-WW-AEC. The purpose of the amendment was to increase the charges above those in the contract filed with the original contract because without assurances of additional revenue, the Utility would not get the loan and be able to go forward with the construction project that the Utility and both customers sought. The terms of the new contract call for the rates to be paid retroactively starting in January 2009; the monthly rate would be $14,950; and after completion of the construction and additional rate of $3,350 would be charged.

Q. THESE ARE NOT THE TERMS THAT YOU DISCUSSED FOR THE HOLIDAY CONTRACT ABOVE. WHY IS THE CONTRACT THAT IS IN EFFECT NOW, DIFFERENT THAN THESE TERMS?

A. The Staff indicated that it would not support the amended contract as filed. There were a number of changes suggested by the Staff:[13]

1. The effective date of the new contract was changed from January 1, 2009 to September 1, 2009.

2. The rate of $13,000 per month was required to stay in effect until the completion of 50% of the construction project—approximately March 2010.

3. Upon completion of 50% of the construction project, the rate would be increased $1,675 as opposed to $3,350 per month. Only after the project is 100% completed would the Utility get $3,350 additional per month.

4. The utility had to withdraw its application in Lake Village Case No. 09-465-WW-AEC.

Q. WHAT WAS THE IMPACT OF THESE CHANGES ON THE UTILITY?

A. The postponement of the date that the new rate of $14,950 went into effect cost the utility approximately $31,200 (a delay of 16 months). The delay of implementing the $3,350 additional charge cost another $13,400 (a delay of 8 months). There was no explanation in the case file as to why this decrease in revenue was necessary for Staff support of the contract.

Q. WHY WAS IT REQUIRED THAT THE UTILITY DROP ITS LAKE VILLAGE CASE NO. 09-465-WW-AEC?

[13] See Attachment C

A. Once again, I do not know why this restriction was placed upon getting approval of the Holiday contract. There was nothing in either case file. It does not make sense why the Utility with only two contract customers, that is undergoing a construction project that would equally benefit each customer, should only be allowed to increase rates to one of those customers.

Future Concerns

Q. DURING THE COURSE OF THIS CASE, THERE WERE A NUMBER OF NON-RATE ISSUES AND SERVICE ISSUES THAT AROSE. HOW SHOULD THESE ISSUES BE ADDRESSED IN THE FUTURE?

A. As demonstrated from all of the above, this is a very small utility with limited flexibility and cash. This is not to say that studies should not be conducted and improvements made to the system. However, this is not a utility that can simply fund these studies or projects and collect the money later. Before studies and improvements are to be undertaken, there needs to be an understanding between the Utility and its two customers as to how the costs of such studies and improvements will be recovered.

Summary

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

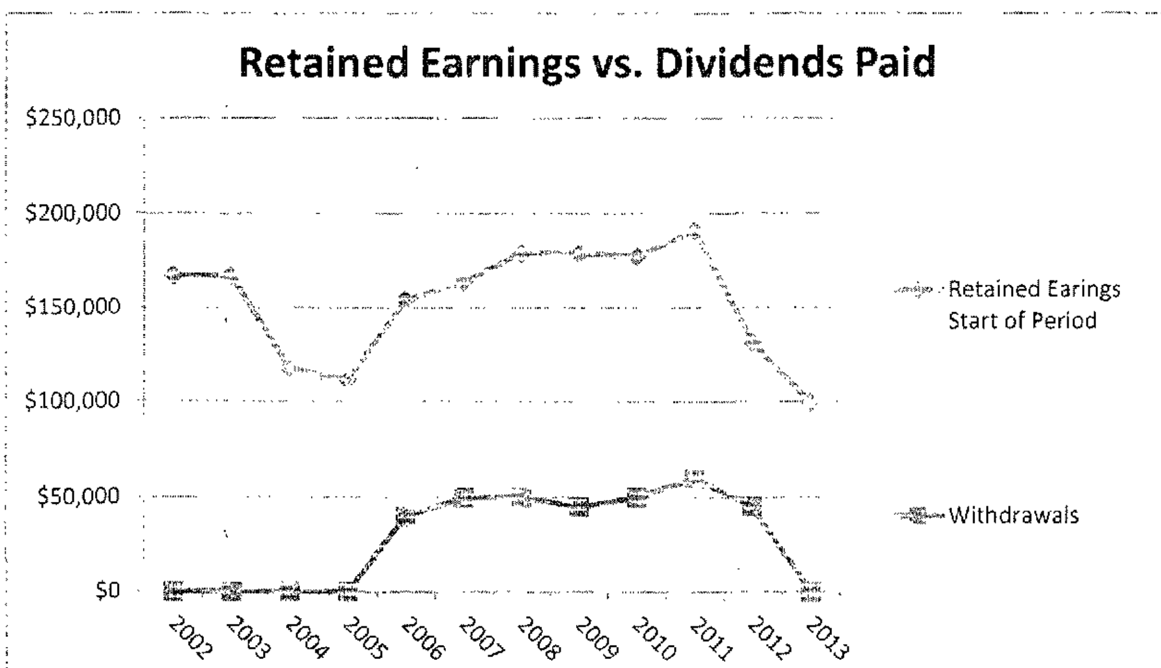
A. The Utility is in a difficult cash position because it took on a loan that was over four times its equity. It needs cash to overcome this difficulty. It needs revenues of $324,556 which is $43,000 more that the test year revenues of $284,556 that it obtained from its two contract customers. Additionally, the Utility has been administered in an appropriate manner with respect to its retained earnings and dividends paid.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. But I reserve the right to modify it based upon additional testimony that may be filed by others.

Attachment A

	Retained Earnings	Withdrawa	Transferred from Income	Adjustments
2002	167,284	0	-513	0
2003	166,771	0	-22,494	-26,304
2004	117,973	0	-6,671	0
2005	111,302	0	43,200	0
2006	154,502	40,000	49,402	1
2007	163,905	50,000	64,938	0
2008	178,843	50,000	49,987	0
2009	178,830	45,000	43,220	0
2010	177,050	50,000	64,162	-2
2011	191,210	60,000	649	0
2012	131,859	45,000	12,783	0
2013	99,642	0		



Attachment B

Monitoring marketplaces and enforcing rules to assure safe, adequate, and reliable utility services.

May 8, 2009

Camplands Water LLC
Marvin Goldenberg, President
2100 South Ocean Boulevard
Palm Beach, FL 33480

Dear Mr. Goldenberg,

It has come to the attention of the Public Utilities Commission of Ohio (PUCO) that Camplands Water LLC (Company) may be operating under rates not approved by the PUCO. As a utility under the jurisdiction of the PUCO all contracts between the Company and its customers must be approved by the PUCO before they are effective. If the Company is charging rates other than those approved by the PUCO, the Company should cease charging those rates and revert to billing the PUCO-approved rates.

Any contracts filed with the PUCO for approval must be filed with the following data: 1) the 2008 annual report, 2) 2008 tax returns, 3) 2008 usage data by customer and month, and 4) any other relevant supporting data.

Please advise the PUCO as to the rates being charged to Holiday Camplands Association, Inc. and Lake Village Club, Inc. as of the date of this letter. Such response should be received at the PUCO by May 18, 2009.

If you have any questions, please contact me at (614) 466-5634.

Sincerely,

Sue Daly
Senior Utility Specialist

Henry W. Eckhart
Attorney at Law
50 West Broad Street
Suite 2117
Columbus, Ohio 43215

TELEPHONE (614) 461-0984
FAX (614) 221-7401

August 19, 2009

Sue Daly FAX: 752-8352
Public Utilities Commission of Ohio
180 East Broad Street
Columbus Ohio 43215

Re: Camplands Water LLC, Case No. 09-425-WW-AEC

Dear Ms. Daly:

On behalf of my client, Camplands Water LLC, ("Camplands") I would like to confirm our understanding of the proposal that you have made to Camplands in regard to the pending Case No. 09-425-WW-AEC. As I understand it, and as Marvin Goldenberg understands it, you are proposing that the Commission Staff will recommend to the Commission that the proposed Agreement attached to the pending Application in the above styled case will be approved subject to the following modifications:

1. The effective date of the rate increase to Holiday Camplands Association, Inc. will not be effective as of January 1, 2009 as stated in the original Agreement submitted as Exhibit A-1 of the Amended Application filed with the Commission on August 6, 2009.

2. The monthly rate for water service to Holiday Camplands Association, Inc. for the unmetered water service shall increase to $14,950.00 per month to commence when fifty (50%) percent of the Ohio EPA principal loan funds have been utilized for the planned physical/structural improvements to Camplands Water LLC plant, and Camplands has applied for and the Commission has approved the recovery thereof. There will be an additional $3,350.00 per month toward financing of the Ohio EPA loan to be recovered from Holiday Camplands Association, Inc. in two steps. $1,675.00 per month is to be recovered upon fifty (50%) percent of the Ohio EPA loan funds having been utilized for the planned physical/structural improvements to the plant and an additional $1,675.00 per month is to be recovered upon the entire Ohio EPA funds having been expended and the construction is complete. Camplands in each instance shall make a filing with the Commission justifying the recovery.

Henry W. Eckhart

3. The language regarding the 20 year provision will be deleted.

4. Camplands will renegotiate the subject Agreement with Holiday Camplands Association, Inc. to reflect the above modifications and submit that new Agreement to the Commission for its approval.

5. Furthermore it is understood that upon completion of the planned construction project Camplands will effectively have a total rate base in the approximate amount of $1,000,000.00. This is based upon the estimated new construction costs and the current rate base so that upon application for approval of the new rates this will provide Camplands Water LLC an overall (10%) rate of return on the entire rate base.

6. Camplands will also concurrently file an Application with the Commission to withdraw the pending Application in Case No. 09-465-WW-AEC for approval of an Agreement with Lake Village Club.

Please let me know if this is the correct understanding of your position.

Sincerely,

Henry W. Eckhart

Henry W. Eckhart, attorney for
Camplands Water LLC.

cc: Camplands Water LLC (857) 277-0398

Cwcltr81909