

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	)	
Aqua Ohio, Inc. to Increase Its Rates and	)	Case No. 16-0907-WW-AIR
Charges for Its Waterworks Service.	)	

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**DIRECT TESTIMONY  
OF  
EDMUND P. KOLODZIEJ, JR.  
ON BEHALF OF  
AQUA OHIO, INC.**

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- ☒ Management policies, practice and organization
- ☐ Operating income
- ☐ Rate base
- ☐ Allocations
- ☐ Rate of return
- ☐ Rates and tariffs
- ☒ Other

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1 **Direct Testimony of**  
2 **Edmund P. Kolodziej, Jr.**  
3

4 **I. BACKGROUND AND PURPOSE**

5 **Q1. Please introduce yourself.**

6 A. My name is Edmund P. Kolodziej, Jr. I am the President and Chief Operating Officer of  
7 Aqua Ohio, Inc. (Aqua Ohio or the Company). My business address is 6650 South Ave.,  
8 Boardman, Ohio 44512.

9 **Q2. What are your job responsibilities as President of Aqua Ohio?**

10 A. I oversee all aspects of the Company's water and wastewater operations. To this end, I  
11 am responsible for the personnel employed by the Company as well as the development  
12 and maintenance of a competent and engaged workforce. I routinely interact with  
13 government officials, business representatives, and civic organizations. I also direct the  
14 development, implementation and monitoring of annual budgets for capital investments  
15 and operation and maintenance expenditures. I am responsible for controlling  
16 expenditures, overseeing inventory control, and water production and distribution  
17 procedures.

18 **Q3. Apart from your current position, do you have any other experience in public utility**  
19 **management?**

20 A. Yes. I have devoted my 40-year career to working directly for or serving multiple sectors  
21 of the utility industry. A summary of my experience, education, and professional  
22 affiliations is set forth in Aqua Exhibit 1.1.

23 **Q4. What is the purpose of your testimony?**

24 A. I explain Aqua Ohio's operations, changes to those operations since the last rate case, and  
25 the factors contributing to the need for Aqua Ohio to seek a rate increase. I conclude my

1 testimony by introducing the other witnesses providing direct testimony on behalf of  
2 Aqua Ohio.

3 **Q5. Have you previously testified before any regulatory agency?**

4 A. Yes. I provided testimony in the Company's last rate case (Case No. 13-2124-WW-AIR).  
5 I have also provided testimony before the Pennsylvania Public Utility Commission  
6 (Docket No. P-00920567), Petition of Metropolitan Edison Company and Pennsylvania  
7 Electric Company Requesting A) Authority to Implement a Conditioned Power Services  
8 Program and B) Approval of Certain Modifications and/or Supplements to their Existing  
9 Tariffs in Order to Implement the Conditioned Power Services Program. In New Jersey, I  
10 provided similar testimony before the New Jersey Board of Public Utilities in Docket No.  
11 ET 920-40308.

12 **II. OVERVIEW OF COMPANY OPERATIONS**

13 **Q6. Please generally describe the Company.**

14 A. Aqua Ohio is a water and wastewater public utility and the second largest state operating  
15 subsidiary of Aqua America, Inc. (Aqua America), a holding company for water and  
16 wastewater utilities that operates systems across eight states. Aqua Ohio's main office is  
17 in Boardman, Ohio. The Company has five principal operating divisions:

- 18 • Lake/Ashtabula Division, serving approximately 31,357 customers in the cities of  
19 Mentor and Mentor-on-the-Lake as well as 14,100 customers in Ashtabula, the  
20 Village of North Kingsville and portions of surrounding townships in Ashtabula  
21 County;
- 22 • Franklin County/Lawrence Division, serving approximately 8,075 water customers  
23 and 6,675 wastewater customers in portions of Blendon, Madison, Norwich, Perry,  
24 Prairie, Sharon and Truro Townships. This division also serves 3,853 customers in  
25 the Village of Chesapeake, the Village of Burlington, portions of surrounding  
26 townships and Lake White in Pike County as well as 7 customers in Preble County  
27 adjacent to Richmond, Indiana;

- Struthers Division, serving approximately 19,513 customers in the city of Struthers, the villages of Lowellville, Poland and New Middletown, the townships of Beaver, Coitsville, Poland, Springfield and portions of Canfield and Boardman. This division is also responsible for operations serving approximately 1,464 customers in Masury.
- Stark/Mansfield/Portage Division, serving approximately 36,592 customers in the cities of Massillon and Green as well as portions of Stark County, 1,368 customers in ten separate smaller systems north and east of Mansfield in Richland County and approximately 905 customers in Brimfield (Beechcrest) service area and Brimfield (Aurora East) service area located in Brimfield Township.
- Marion/Tiffin Division, serving approximately 25,278 customers in the cities of Marion and Tiffin and portions of the adjacent townships in Marion and Seneca Counties.

As of March 31, 2016, the Company served approximately 143,766 water customers and 6,675 wastewater customers throughout 19 counties in Ohio.

**Q7. What are the service areas subject to the requested rate adjustments?**

A. Those service areas are described in the Pre-Filing Notice and Application, and are follows:

- Lake service division, consisting of: Sagamore Hills, Norlick Place subdivision, Lake Seneca subdivision, Lake Erie East; and portions of Ashtabula, Geauga, Lake, Summit, and Williams counties;
- Masury service division, consisting of: Brookfield and Hubbard Townships in Trumbull County;
- All areas formerly served by Ohio American Water Company, consisting of: Ashtabula, Franklin, Lawrence, Portage, Preble, and Marion counties; and Mansfield, Marion, Lake White, and Tiffin;
- All areas formerly served by Mohawk Utilities, Inc.; and
- All areas formerly served by Tomahawk Utilities, Inc.

**Q8. What is the difference between the Company's "operating divisions" described in your direct testimony and the "service areas" you just described?**

A. The five "operating divisions" represent Aqua Ohio's water systems as they are organized for operational purposes. The "service areas" described above reflect those

1 portions of Aqua Ohio's operating divisions that are the subject of this rate proceeding  
2 and are associated with the tariff rates and terms of service contained therein. The  
3 Company generally manages and operates its system by operating division. However, the  
4 rates charged to specific customers within each division are a function of the service area  
5 and the associated tariff.

6 **Q9. When were Aqua Ohio's current rates established?**

7 A. Aqua Ohio's current rates were established for its PUCO Regulated Divisions on  
8 September 10, 2014, in Case No. 13-2124-WW-AIR; for the Mohawk Utilities on  
9 September 1, 2008, in Case No. 07-0981-WW-AIR; for the Tomahawk Utilities on  
10 September 21, 2006, in Case No. 05-1579-WW-AIR. Aqua Ohio filed this rate case  
11 because the rates established in these previous cases are no longer sufficient to support a  
12 reasonable return on the investment required to provide service.

13 **Q10. Is Aqua Ohio proposing to increase rates for all customers and service areas?**

14 A. No. The rate changes requested in this proceeding include only those areas listed above,  
15 and exclude the Stark and Struthers service divisions. Aqua Ohio is not requesting a  
16 change to any wastewater rates.

17 **Q11. Have there been any significant changes in Aqua Ohio's operations since its last rate**  
18 **proceeding?**

19 A. Yes. On December 31, 2014, Aqua Ohio purchased all of the assets of the Mohawk and  
20 Tomahawk Utilities. Mohawk provided water service to 966 customers and Tomahawk  
21 provided water service to 295 customers.

1     **III.     MANAGEMENT POLICIES, PRACTICES AND ORGANIZATION**

2     **Q12.   What is the management reporting process at Aqua Ohio?**

3     A.     Aqua Ohio has its main office located at 6650 South Avenue, Boardman, Ohio, where  
4           management personnel in operations, engineering, accounting and finance are located.  
5           Each Division (except Masury) has an on-site Area Manager who directs the local  
6           workforce. All Area Managers report to the Director of Operations who, in turn, reports  
7           to me.

8     **Q13.   Are you familiar with the Supplemental Information filed in this Case on Schedules**  
9       **S-4.1 and S-4.2?**

10    A.     Yes, I am.

11    **Q14.   Do you have tables of organization that indicate the line and staff responsibilities**  
12       **within each of your Divisions and the lines of responsibilities between the Divisions**  
13       **and the members of the central operations office?**

14    A.     Yes. They are part of Schedule S-4.2 of the Standard Filing Requirements.

15    **Q15.   Does Aqua Ohio have policies and procedures in place for its employees?**

16    A.     Yes. Aqua Ohio has written policies and procedures covering key facets of its operations  
17           and they constitute the policies and procedures for our personnel. Non-administrative  
18           hourly workers are members of either Operating Engineers or the Utility Workers Union  
19           of America. The Union agreements delineate the workers' rights, hourly wages, holidays,  
20           sick leave and all other applicable benefits and working conditions. Job responsibilities  
21           for non-union workers are set out in job descriptions and goals and objectives  
22           communicated to employees.

23    **Q16.   What is Aqua Ohio's general approach to business planning?**

24    A.     Aqua Ohio's business planning process follows a five-year capital construction program,  
25           which is updated annually to develop a current construction budget and current operating

1 budget. Company management monitors construction and operating budgets through  
2 monthly reviews.

3 **Q17. How does the Company evaluate employees?**

4 A. Aqua Ohio has a formal performance planning process that identifies corporate objectives  
5 for each calendar year and serves as a basis for evaluating progress toward the agreed-  
6 upon outcomes. Each area manager and department supervisor within the Division has  
7 established performance plans that are monitored routinely by the area manager.

8 **IV. NECESSITY FOR RATE INCREASE**

9 **Q18. Are Aqua Ohio's current rates sufficient for the Company to recover its cost of**  
10 **service and earn a reasonable return on investment?**

11 A. No. An evaluation of the test year ending December 31, 2016, shows that at present rates,  
12 the Company is expected to earn only a 5.64% rate of return. This overall return is well  
13 below the current investor-required rate of return recommended by Company witness Mr.  
14 Dylan D'Ascendis. With the application requested rate increase, the expected rate of  
15 return is 7.67%.

16 **Q19. How does an earned rate of return of 5.64% affect the Company's ability to provide**  
17 **safe, adequate and reliable service?**

18 A. The Company's ability to provide water service is dependent on a consistent level of  
19 adequate earnings. Adequate earnings are those necessary to compensate current  
20 investors and attract future investment. In addition, revenues must be sufficient to cover  
21 operating expenses, such as employee payroll and benefits, insurance, taxes, depreciation,  
22 and costs associated with maintenance and operations and additionally to provide for the  
23 payment of capital costs. Revenues under current rates are not adequate to accomplish  
24 this result.



**Q20. What factors are causing the current revenue deficiency?**

A. Operations and maintenance costs for the test year ending December 31, 2016, are only marginally higher than what is presently reflected in rates. Current rates are based upon 2014 costs for the Lake, Masury and prior American locations and 2005 costs for the prior Tomahawk location and 2007 for the prior Mohawk location. In addition, Aqua Ohio has experienced a decrease in average residential consumption; however, the greatest factor is the Company's investment in infrastructure. The Company has invested approximately \$45 million in infrastructure replacement or improvements since the last rate case. These investments include replacing and installing water distribution lines, meters and hydrants, as well as improvements to water treatment, pumping and storage facilities. These investments have been necessary to meet regulatory requirements, to enhance customer service and to replace aging infrastructure. Additionally, since acquiring Ohio American, Aqua Ohio has worked to identify and undertake a number of infrastructure issues that came as a part of the acquisition. Details of the major infrastructure replacement and improvement projects are addressed in Mr. Peter Kusky's testimony.

**Q21. What other factors are driving the revenue deficiency?**

A. In addition to infrastructure investment, increases in utility plant also result in greater property tax and depreciation expenses. The Company also continues to see a decline in overall sales levels, particularly in terms of usage per customer.

**Q22. What types of plant and property are necessary to provide water service?**

A. As of the date certain of December 31, 2016, Aqua Ohio's plant accounts, which are discussed in Mr. Richard Hideg's direct testimony, include: land and land rights, structures and improvements, wells, pumping equipment and associated facilities,

1 purification plant and equipment, sludge disposal facilities, transmission and distribution  
2 mains, distribution storage facilities, service lines, meters, hydrants, and other  
3 appurtenances.

4 **Q23. What are some of the major capital improvements Aqua Ohio has made since its**  
5 **last rate case?**

6 A. A recap of the major capital improvements invested since the last case by location can be  
7 found in Mr. Kusky's testimony.

8 **Q24. Please introduce the other witnesses who are providing direct testimony on behalf of**  
9 **the Company.**

10 A. In addition to myself, the following persons are also submitting direct testimony:

- 11 • Robert Kopas, Regional Controller for Aqua America, supports the proposed capital  
12 structure and certain Schedule B exhibits.
- 13 • Richard Hideg, Controller for Aqua Ohio, supports the remaining Schedule B  
14 exhibits, including support for the claimed rate base.
- 15 • Elaine Martin, Assistant Controller for Aqua Ohio, addresses various operating  
16 expenses, pro forma adjustments to the operating income statement which affect  
17 purchased water, fuel and power, chemicals, waste disposal, insurance other than  
18 group customer accounting, rents, general office expense and other maintenance as  
19 well as the Schedule C exhibits.
- 20 • Peter Kusky, Director of Operations and acting Regional Engineer for Aqua Ohio,  
21 explains the infrastructure investments included in rate base.
- 22 • Dylan D'Ascendis, Sussex Economic Advisors, LLC, provides testimony regarding a  
23 recommended rate of return for Aqua Ohio.
- 24 • Paul Herbert, Gannett Fleming, supports the cost of service study and rate design  
25 developed for this case.
- 26 • John Spanos, Gannett Fleming, supports the depreciation study for this case.
- 27 • Daniel Franceski, is an independent consultant, provides testimony supporting the  
28 Company's billing determinants, revenues at current rates, and proposed rate design.

29 **Q25. Does this conclude your direct testimony?**

30 A. Yes, it does.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the Direct Testimony of Edmund P. Kolodziej, Jr. was served by electronic mail to the following persons on this 14th of June, 2016:

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One of the Attorneys for Aqua Ohio, Inc.

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Summary: Text Direct Testimony of Edmund P. Kolodziej, Jr. electronically filed by Ms. Rebekah J. Glover on behalf of Aqua Ohio, Inc.