

**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.)	

**DIRECT TESTIMONY
OF
RICHARD A. HIDEG
ON BEHALF OF
AQUA OHIO, INC.**

- ☐ 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 **Richard A. Hideg**

3 **I. BACKGROUND AND PURPOSE**

4 **Q1. Would you please state your name and address for the record?**

5 A. My name is Richard A. Hideg. My business address is 6650 South Avenue,
6 Boardman, Ohio 44512.

7 **Q2. Mr. Hideg, by whom are you employed and in what capacity?**

8 A. I am the controller with Aqua Ohio, Inc. (Aqua Ohio or the Company).

9 **Q3. How long have you been employed by Aqua Ohio?**

10 A. I have been associated with Aqua Ohio since July 2005.

11 **Q4. Generally, Mr. Hideg, what are your duties and responsibilities as a controller**
12 **for Aqua Ohio?**

13 A. As Controller, I am primarily responsible for the day-to-day operations of the
14 accounting department, which includes all financial reporting and budgeting, as well
15 as various administrative duties. Because of my responsibilities with respect to the
16 financial aspects of the Company, I am also involved in the preparation of rate case
17 applications.

18 **Q5. Please outline your educational background and business experience.**

19 A. I am a 1978 graduate of Youngstown State University with a Bachelor of Science
20 degree in Business Administration with a major in Accounting. From June 1980 to
21 July 1998, I was employed by Consumers Ohio Water where I held various
22 accounting positions from property accountant to Assistant Treasurer. I was then
23 employed by Youngstown State University as Associate Director of Accounting
24 from July 1998 till June 2005. I was hired by Aqua Ohio in July 2005 as Assistant
25 Controller.

1 **Q6. Do you have experience in the regulatory ratemaking process?**

2 A. Yes. In addition to my work in connection with this filing, I have been involved in
3 the preparation of the prior Consumers Ohio Water Company – Lake Erie East
4 Division filing, Case No. 95-1076-WW-AIR, Lake Erie Division filing, Case No.
5 07-0564-WW-AIR, Masury filing, Case No. 09-0560-WW-AIR, Lake filing, Case
6 No. 09-1044-WW-AIR, and the Aqua Ohio Lake/Masury and former American
7 properties, Case No. 13-2124-WW-AIR; I filed testimony in all of these cases.

8 **Q7. Are you familiar with the application filed by Aqua Ohio in Public Utilities**
9 **Commission of Ohio Case No. 16-0907-WW-AIR?**

10 A. Yes, I am. I was directly responsible for the preparation of the rate base section of
11 the Standard Filing Requirements (SFR). My direct testimony for this case is in
12 support of the SFR schedules on which I am identified as the “Witness Responsible.”

13 **II. SECTION B SCHEDULES**

14 **Q8. Your name appears on certain schedules included in Section B – Rate Base.**
15 **Please explain these schedules.**

16 A. The first schedule to be completed in determining the rate base for this case was
17 Schedule B-2.3, and it was completed as follows. Each property account for the total
18 Lake Division, Masury Division, former American properties, the Mohawk and
19 Tomahawk properties (which were acquired in December 2014) and the total Service
20 Center was listed and identified by the property NARUC number and description in
21 Columns (A) and (B). The Total Division Beginning Balance Column (C) shows the
22 combined original cost of the Plant in Service at the last Date Certain of the last rate
23 case. The last Date Certain for the Lake, Masury and former American Divisions
24 was March 31, 2014, as it was included in Case No. 13-2124-WW-AIR. The
25 Beginning Balance used for the Aqua Ohio Service Center was taken from Case No.

13-2124-WW-AIR. Workpapers WPB-2.3a through WPB-2.3u support the compilation of the beginning balance in Column (C), which represents the stipulated balance from Case No. 13-2124-WW-AIR. These workpapers continue populating Column (D) by identifying the Staff adjustments made in the previous case. Provided next are the actual additions, retirements, and transfers that occurred during the projected period, July 1, 2013, to March 31, 2014. Then the projected plant activity allowed in the last case for the period July 1, 2013, to March 31, 2014, is removed after being replaced by the actual plant activity for that period. This establishes the Aqua Ohio general ledger utility plant in service balance at March 31, 2014, in Column (E). The original cost of additions, Column (F), retirements, Column (G), and transfers, Column (H), made between April 1, 2014, and March 31, 2016, for Aqua Ohio's PUCO regulated water divisions and the Service Center are listed by account. This information is supported by workpapers WPB-2.3v through WPB-2.3cb. Column (H) also contains the Mohawk Utilities and Tomahawk Utilities acquisition values. Workpaper WPB-2.3cc details the beginning balance from the Dates Certain of the previous rate cases. The last Date Certain for the Mohawk Utilities was June 30, 2007, as it was included in Case No. 07-0981-WW-AIR. The last Date Certain for the Tomahawk Utilities was December 31, 2004, as it was included in Case No. 05-1579-WW-AIR. Workpaper WPB-2.3cc continues to provide the additions installed from the previous Dates Certain covering the period from July 2007 through December 2014. These first three columns on workpaper WPB-2.3cc total \$3,051,645.11 and are combined with the (\$29,844.10) of transfers in Column (H). The final three columns on workpaper WPB-2.3cc support the 2015 additions and retirements made by Aqua Ohio to arrive at the utility plant in service

balance at December 31, 2015, for the Mohawk and Tomahawk Divisions. This 2015 Aqua Ohio activity for the Mohawk and Tomahawk Divisions is detailed on workpapers WPB-2.3ap and WPB-2.3bj. Column (K) on Schedule 2.3 represents the general ledger utility plant in service balance at March 31, 2016. Column (L) supported by workpaper WPB-2.3cd details the projected asset additions and retirements for the period April 1, 2016, through the Date Certain December 31, 2016. Schedule 2.3 Column (M) provides the total Plant in Service at Date Certain December 31, 2016.

Q9. How do you define original cost?

A. "Original cost" as applied to utility plant means the cost of such property to the person first devoting it to public service.

Q10. How is the original cost of the various items of property determined?

A. Records are maintained by Aqua Ohio in compliance with the Uniform System of Accounts for Class A and B Water Utilities. The original cost of each item of property is recorded by project number in the activity module. After each item of property has been placed in service or retired, the appropriate original cost is transferred from construction work in progress to fixed capital.

Beginning with the fixed capital ledger account balances, each transfer to the fixed capital ledger is checked to assure that the proper original cost has been added or subtracted. Each authorization for expenditure or retirement is examined and analyzed for accuracy, and in most cases the appropriate ledger entries are also analyzed.

1 **Q11. How do you determine that the various items of property are in service at the**
2 **date certain?**

3 A. Each work order provides a completion report on which is recorded the date
4 completed and date in service. The date in service is used for that determination.

5 **Q12. Describe how schedule B-2 is completed.**

6 A. After completing Schedule B-2.3, the Total Division Ending Balance, Column (M)
7 balance was carried forward as applicable to Schedule B-2.1, Column (C). As
8 required by the SFR, these balances were then allocated and adjusted to determine
9 the Adjusted Jurisdictional, Column (G), Plant in Service at Date Certain, December
10 31, 2016. The property records are maintained separately by Aqua Ohio for each of
11 its operating divisions and therefore the Total Division, Column (C) amounts shown
12 on Pages 1 through 12 on Schedule B-2.1 are allocated 100% to the PUCO
13 Regulated Divisions and the previous Mohawk and Tomahawk Properties and are
14 restated in Column (E) as the Allocated Total. The Service Center Plant in Service is
15 used to serve all the operating divisions of Aqua Ohio and therefore is allocated at
16 64.61% for the PUCO Regulated Divisions and the Prior Mohawk and Tomahawk
17 properties. The 64.61% allocation percentage is developed on Schedules B-7 and B-
18 7.1 using the net plant of the PUCO Regulated Divisions and the Prior Mohawk and
19 Tomahawk Properties divided by the sum of the net plant of all the operating
20 divisions less the Service Center net plant. The Allocated Total, Column (E), as
21 shown on Page 13 through 15 of Schedule B-2.1 is the amount applicable to the
22 PUCO Regulated Divisions and the former Mohawk and Tomahawk Properties for
23 the Service Center General Plant. Line 29, Column (E), Page 15 of Schedule B-2.1
24 shows the total PUCO Regulated Divisions and the former Mohawk and Tomahawk

Properties and allocated Service Center Plant in Service at Date Certain December 31, 2016 in the amount of \$326,431,367.43.

Q13. Are there any adjustments to plant in service?

A. Yes. As detailed on Schedule B-2.2, there are proposed adjustments to Plant in Service. Well field land is excluded in the amount of \$146,442.96 located in Shepard Hills. The intake in Lake Erie that served the Green Road Plant in Ashtabula is being excluded in the amount of \$285,464.92. Also excluded is the supply main from the intake to the Green Road Plant for \$9,791.78. All of these items were excluded from rate base in Case No. 13-2124-WW-AIR. The adjustments have been used again in this case as there has been no change in their status. Schedule B-2.1, Page 15, Line 29, Column (G), Adjusted Jurisdiction results in an adjusted total of \$325,989,667.77.

The adjusted jurisdictional original cost balances are then carried forward to Schedule B-2 by Major Property Groupings and this total is then carried forward to Line 1 on Schedule B-1. The Total Plant in Service at Date Certain, December 31, 2016, is \$325,989,668. The next component of rate base to be considered was the Depreciation Reserve. The Total Division Ending Balance, Column (M) of Schedule B-2.3 was restated on Schedule B-3 as Total Division Plant Investment, Column (C). The account balances for the depreciation reserve were then set forth in Column (D) and allocated and adjusted using the same procedure as was used for the Plant in Service in Schedule B-2.1. The total PUCO Regulated Divisions and former Mohawk and Tomahawk Properties and allocated Service Center Reserve for Accumulated Depreciation as of December 31, 2016 shown on Schedule B-3, Page 15 of 15, Line 28, under Adjusted Jurisdiction, Column (H) is \$92,318,239.31. The

1 same amount is restated on Schedule B-1, Page 1 of 1, Line 4 under Company
2 Proposed Amount, Column (E) as \$92,318,239.

3 Workpaper support for the depreciation reserve is located on WPB-3a 2/2
4 Total Column, Line 17, \$87,379,351.06 for the PUCO Regulated Divisions and the
5 Prior Mohawk and Tomahawk Properties. The Service Center is on WPB-3b Total
6 Column, Line 27, and this amount of \$8,101,137.54 is allocated at 64.61% on
7 Schedule B-3. Workpaper WPB-3c Total Column 9/12's of Column (E), Line 51,
8 (\$414,208.82) is the adjustment to reserve for CIAC depreciation expense from
9 April 2016 to December 2016. The final value that affects the depreciation reserve
10 total is the reserve adjustments for the B-2.2 exclusions of (\$295,256.70) found on
11 B-3 Page 15 of 15, Column G, Line 28.

12 **Q14. How was schedule B-6 completed?**

13 A. Contributions in Aid of Construction are set forth on Schedule B-6 and then carried
14 forward to Line 13 of Schedule B-1 as \$32,893,077. Line 19 of Schedule B-1 sets
15 forth an amount of \$27,043,706 as Other Items. This amount includes the pre-1971
16 three percent and the 1971 four percent Investment Tax Credits, the Deferred
17 Income Tax from Liberalized Depreciation, Deferred Income Tax on contributed
18 property and other Regulatory Assets and Liabilities, all of which are identified on
19 Schedule B-6.

20 **Q15. Mr. Hideg, would you now summarize Schedule B-1?**

21 A. Yes. At Date Certain, December 31, 2016, the Plant in Service less Depreciation
22 Reserve, plus Construction Work in Progress plus Working Capital, less
23 Contributions in Aid of Construction, Advances for Construction, Customer
24 Advances-Related Facilities, and Other Items results in a Jurisdictional Rate Base of

1 \$168,899,251 for the PUCO Regulated Divisions and Prior Mohawk and Tomahawk
2 Properties.

3 **III. SECTION E SCHEDULES**

4 **Q16. Mr. Hideg, you are the witness responsible for Section E, am I correct?**

5 A. Yes. I am responsible for section E.

6 **Q17. Please explain Schedules E-1 through E-1h.**

7 A. Schedules E-1 through E-1h are copies of the proposed tariff sheets as filed with the
8 “Notice of Intent to File” and if applied to the current consumption will generate the
9 revenue requested on Schedule C-1. Mr. Herbert’s Cost of Service testimony
10 calculates the proposed rates according to the P.U.C.O. methodology.

11 **Q18. Please explain Schedule E-2 through Schedule E-2h and Schedule E-2.1 through**
12 **Schedule E-2.1h.**

13 A. Schedules E-2 through E-2h, are copies of the tariff sheets that are currently in effect
14 and Schedules E-2.1 through E2.1h are redlined copies of the tariff sheets.

15 **Q19. Please explain Schedule E-4.**

16 A. Schedule E-4 summarizes the proposed and current revenue annualized. The
17 Metered Sales (Residential, Commercial, Industrial, and Other Utilities) represents
18 the actual consumption for the 12 months ending December 31, 2016. A fire rate
19 analysis was prepared as of December 31, 2016, recapping the Private Fire
20 Protection billings. The increase in Forfeited Discounts is based on the increase in
21 Metered Revenue. An increase was anticipated in Miscellaneous Revenue.

22 **Q20. Please describe Schedule E-5a pages 1 through 3, Schedule E-5b, Schedule E-5c,**
23 **Schedule E-5d, Schedule E-5e pages 1 through 3, Schedule E-5f pages 1 through**
24 **3, Schedule E-5g pages 1 through 3, and Schedule E-5h pages 1 through 3.**

25 A. Schedules E-5 through Schedule E-5h separate the areas and compares the current
26 bill to the proposed bills at various levels of consumption and by customer class. It

1 also shows what the increase and percent of increase for each level of consumption
2 shown.

3 **Q21. Finally, the Stipulation approved in Case No 13-2124-WW-AIR provided that**
4 **Aqua should demonstrate to Staff within a year of approval “that Aqua Ohio**
5 **engages in rigorous, regular, PMI driven budget development and oversight of**
6 **IT projects.” Did Aqua Ohio submit such information to Staff as required by**
7 **the Stipulation?**

8 A. Yes. The Stipulation was approved on September 10, 2014. In August 2015,
9 representatives of Aqua Ohio conferred with Staff and provided information
10 demonstrating compliance with this requirement. My understanding is that Staff was
11 satisfied that Aqua Ohio had adopted policies through which it engaged in rigorous,
12 regular, PMI-driven budget development and oversight of IT projects. Accordingly,
13 Aqua Ohio believes that it has complied with this provision of the Stipulation.

14 **Q22. Does this conclude your direct testimony?**

15 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of Richard A. Hideg was served by electronic mail to the following persons on this 14th of June, 2016:

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/s/ Rebekah J. Glover
One of the Attorneys for Aqua Ohio, Inc.

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Summary: Text Direct Testimony of Richard A. Hideg electronically filed by Ms. Rebekah J. Glover on behalf of Aqua Ohio, Inc.