

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua)	
Ohio, Inc., for Authority to Assess a System)	
Improvement Charge in the Lake / Masury /)	Case No. 18-0337-WW-SIC
Prior American / Prior Mohawk / Prior)	
Tomahawk Properties.)	

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

1 Supplemental Direct Testimony of
2 Richard A. Hideg

3 I. INTRODUCTION AND SUMMARY

4 Q1. Please introduce yourself.

5 A. My name is Richard A. Hideg.

6 Q2. Are you the same Richard Hideg who submitted Direct Testimony in this
7 proceeding on March 1, 2018?

8 A. Yes.

9 Q3. What is the purpose of your Supplemental Direct Testimony?

10 A. My testimony supports the Stipulation that was filed on November 8, 2018, between Staff
11 and the Company, and addresses facts relevant to its compliance with the Commission's
12 standards for stipulations.

13 Q4. Are you familiar with the Company's application and supporting materials in this
14 case?

15 A. Yes. The application and exhibits were prepared by me or under my supervision, and I
16 am also familiar with the costs and investments included for recovery in this case.

17 II. THE STIPULATION

18 Q5. Briefly describe the Stipulation.

19 A. Since the filing of the application in this case, Staff and the Company have engaged in a
20 number of discussions to address Staff's concerns regarding the proper scope of costs and
21 investment includable within a System Infrastructure Charge (SIC). The Stipulation sets
22 forth the outcome of those discussions, establishes the SIC recommended for approval in
23 this case, and will provide significant clarity in future proceedings.

24 Q6. What questions were raised regarding the proper scope of investment includable in
25 a SIC?

26 A. To provide context, Staff's comments filed in this case on July 11, 2018, expressed that
27 R.C. 4909.172 (the legislation authorizing the SIC) does not "allow[]" for the recovery of

1 all plant replacement through a SIC.” (*Id.* at 4.) Staff stated that “limits on the items that
2 can be recovered through a SIC still exist.” (*Id.*) The comments set forth a description of
3 certain items that Staff believed should be excluded.

4 **Q7. Did Aqua agree with the Staff comments?**

5 A. Not in their entirety. Aqua agreed that there were statutory limits on what could be
6 included in a SIC. But the Company did not believe that all of the listed items were
7 properly excluded. And based on the Company’s review of the Staff comments, it was
8 not clear what standard would govern what plant was and was not to be included in future
9 SIC filings. Given the importance of these investments and limitations on the availability
10 of capital, it was critical for Aqua to determine the standard that should govern.

11 **Q8. How does the Stipulation resolve these questions about scope?**

12 A. There are two ways. First, the Stipulation establishes the investment includable in the
13 present SIC. For purposes of this case, Staff accepted Aqua’s position that the legislation
14 permitted the inclusion of several items that had been initially excluded. In turn, although
15 Aqua believed that more costs could have been properly included in the SIC, it agreed to
16 accept their exclusion.

17 Second, going forward, the Stipulation identifies by NARUC account what costs
18 may be properly included in future SIC filings. This does not mean that all costs recorded
19 in such accounts are automatically included. The statutory standards must be met, and
20 Staff retains the right to review and determine whether the costs have been properly
21 recorded. But the identification of these accounts will provide needed clarity and
22 minimize future disputes regarding the scope of investment. Although Aqua believes that
23 R.C. 4909.172 permits a broader scope of investment than listed in these plant accounts,

1 it is willing to exclude such items from future SIC filings (unless the Stipulation's
2 conditions permitting the proposal of their inclusion in the future have been met).

3 **Q9. Do you believe that the scope of investment established by the Stipulation is**
4 **consistent with the scope of investment authorized by R.C. 4909.172?**

5 A. Yes. First, I am not an attorney, and am not testifying on the meaning of the law; I
6 recognize it is the Commission's duty to interpret the law. But I can testify to the facts
7 that may be pertinent to the law as Aqua understands it.

8 For a waterworks company like Aqua, R.C. 4909.172(C)(1) provides that the
9 "infrastructure plant" includable in a SIC:

10 may consist of [certain] capital improvements that the commission
11 determines are used and useful in rendering public utility service *
12 * * [including] replacement of existing plant including chemical
13 feed systems, filters, pumps, motors, plant generators, meters,
14 service lines, hydrants, mains, and valves * * *.

15 **Q10. Are all of the costs included for recovery in the Stipulation "used and useful in**
16 **rendering public utility service"?**

17 A. Yes, and the Staff comments did not recommend otherwise.

18 **Q11. Do all of the costs included for recovery in the Stipulation represent "replacement of**
19 **existing plant"?**

20 A. Yes. All of the costs relate to capital investments, and all are properly included in
21 NARUC plant accounts. Staff's comments recommended that "all accounts and projects
22 are related to water capital improvements." (*Id.* at 4.) Moreover, all of these costs related
23 to the replacement of existing plant assets with a new asset fulfilling the same function or
24 purpose. Although the Staff comments disagreed with the *scope* of includable "plant
25 replacement," those comments did *not* question whether Aqua's proposed investments
26 actually constituted "replacement."

1 **Q12. The statute permits recovery of “replacement of existing plant, *including*” a number**
2 **of listed items. Does the Company believe that only the items listed after the word**
3 **“including” are recoverable?**

4 A. No. During the course of this proceeding, Aqua has been advised by counsel that the
5 Supreme Court of Ohio has interpreted the word “including” in such contexts as an
6 illustrative term. Thus, we have been advised that the key question is whether a cost fits
7 within the general category of “replacement of existing plant,” and not whether it
8 constitutes one of the listed items.

9 Again, I recognize that this is a legal question, and that my testimony on this point
10 does not bind the Commission or serve as evidence of the statute’s meaning. I offer this
11 testimony only to explain why the Company believes that the Stipulation is consistent
12 with Ohio law.

13 **Q13. In its Motion for Comment Period on Settlement, the Office of the Ohio Consumers’**
14 **Counsel states that the Stipulation “harms customers by allowing approximately**
15 **\$832,000 in additional plant investment as SIC-related charges to be approved by**
16 **the PUCO that previously have been interpreted as prohibited by statute.” Do you**
17 **agree with this statement?**

18 A. No.

19 **Q14. What “additional plant investment” do you believe OCC is referring to?**

20 A. I believe that OCC is referring to the replacement of the roof of a water tank at Victory
21 Road in Aqua’s Marion service area. This was a major replacement project, and it cost
22 approximately the amount noted by OCC.

23 **Q15. How is the tank used in the process of providing water service?**

24 A. This tank holds “finished” water that is ready for distribution into the system. The water
25 held in this tank is fully treated and is ready to drink.

1 **Q16. Was the replacement of the roof necessary to enable the continued use of the tank in**
2 **providing service?**

3 A. Yes. The roof was failing and beginning to leak. Again, this tank held finished water.
4 Without a roof, the water would not have been protected from unwanted materials and
5 potential contamination. A tank without a sound roof would be useless in providing water
6 service to Aqua's customers.

7 **Q17. How is the tank accounted for under the NARUC Uniform System of Accounts?**

8 A. The tank is considered personal property and classified under a water utility plant
9 account. The specific account is Account 342, Distribution Reservoirs and Standpipes,
10 and the instructions to this plant account specify that a "roof" is an item of cost included
11 in the account.

12 **Q18. Does Aqua follow the NARUC Uniform System of Accounts?**

13 A. Yes, this is the accounting system Aqua is required to follow by the Commission.

14 **Q19. Is the Stipulation a product of serious bargaining among knowledgeable parties?**

15 A. Yes. The Stipulation is the result of a serious and open review process, in which the
16 parties were represented by able, experienced counsel and had access to technical experts.
17 The Stipulation is the outcome of a lengthy process of investigation, discovery,
18 discussion, and negotiation. As a result of these negotiations, the Company made
19 additional commitments and accepted additional limitations to those proposed in its
20 application.

21 In particular, Aqua accepted limitations on what plant accounts it may propose in
22 future SIC filings, which in Aqua's view set restrictions beyond those imposed by statute.
23 Aqua believes that the statute authorizing the recovery of "plant" could also be
24 interpreted to include real-property and source-of-supply accounts, but so long as the

1 Stipulation governs Aqua has agreed not to propose such plant costs for inclusion in
2 future SIC filings.

3 Moreover, although the Office of the Ohio Consumers' Counsel (OCC) did not
4 sign the Stipulation, the proposal forming the basis of the Stipulation was shared with
5 OCC, and OCC was invited to and did participate in settlement discussions. OCC was
6 invited to participate in, and was actively involved in, the process that led to the
7 Stipulation.

8 In short, the Stipulation represents a comprehensive, reasonable resolution of the
9 issues in this case by informed parties with diverse interests.

10 **Q20. Does the Stipulation benefit ratepayers and is it in the public interest?**

11 A. Yes. The approval of the SIC itself supports Aqua in the continued provision of safe and
12 reliable water service to its customers, which benefits Aqua, its customers, and the public
13 interest. To the extent a reduction in the SIC benefits ratepayers, the Stipulation provides
14 for a reduction in the charge filed by Aqua (from 3.937 to 3.66 percent). The Stipulation
15 also clarifies what costs may be included in a SIC, and Aqua's agreement to limit the
16 scope of includable plant accounts may also reduce the amount of future SICs, dependent
17 on the investment activity.

18 **Q21. Does the Stipulation violate any important regulatory principle or practice?**

19 A. No. In light of the foregoing, I do not believe that the Stipulation violates any important
20 regulatory principle or practice.

21 **Q22. What is your recommendation to the Commission?**

22 A. I recommend that the Commission approve the Stipulation. The Stipulation represents a
23 fair, balanced, and reasonable compromise of diverse interests and provides a fair result
24 for customers, thereby meeting the Commission's criteria for adopting settlements.

1 **III. CONCLUSION**

2 **Q23. Does this conclude your supplemental direct testimony?**

3 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by electronic mail this 10th day
of December, 2018, to the following:

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/s/ Rebekah J. Glover

One of the Attorneys for Aqua Ohio, Inc.

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