**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

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| --- | --- | --- |
| In the Matter of the Application of Aqua Ohio, Inc. for Authority to Assess a System Improvement Charge in the Lake / Masury / Prior American Properties | ::::: | Case No. 15-863-WW-SIC |

**COMMENTS**

**SUBMITTED ON BEHALF OF THE STAFF OF**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

 **Michael DeWine**

 Ohio Attorney General

 **William L. Wright**

 Section Chief

 **Ryan P. O’Rourke**

 Assistant Attorneys General

 Public Utilities Section

 180 East Broad Street, 6th Floor

 Columbus, OH 43215-3793

 614.466.4397 (telephone)

 614.644.8764 (fax)

 ryan.orourke@puc.state.oh.us

 **Counsel for the Staff of**

 **The Public Utilities Commission of Ohio**

August 14, 2015

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# I. BACKGROUND

 Section 4909.172 of the Revised Code authorizes water and wastewater companies to recover certain costs associated with plant improvements through an infrastructure improvement surcharge, commonly known as a system improvement charge or SIC. Effective March 27, 2013, the General Assembly amended R.C. 4909.172, increasing the maximum water SIC from 3% to 4.25% and expanding the capital improvements appropriate for inclusion in calculating the SIC. The revised language includes the fol­lowing in water capital improvements: “replacement of existing plant including chemical feed systems, filters, pumps, motors, plant generators, meters, service lines, hydrants, mains, and valves, main extensions that eliminate dead ends to resolve documented water supply problems presenting significant health or safety issues to then existing customers, and main cleaning or relining.” The Ohio Administrative Code 4901:1-15-35 and its associ­ated appendix detail the filing requirements and basic information necessary to sup­port a company’s rate request under R.C. 4909.172.

 On May 1, 2015, Aqua Ohio, Inc. (Applicant or Company) filed an application in Case No. 15-863-WW-SIC to collect an infrastructure improvement surcharge of 4.25% from water customers in its Lake Erie Division, Masury Division, and service areas for­merly served by Ohio American Water Company. Through Case No. 15-864-WS-SIC, the Company simultaneously filed an application to collect an infrastructure improvement surcharge of 3% from wastewater customers in its Franklin County District. The Appli­cant currently does not have a SIC in effect in any of its Ohio districts.

 On May 29, 2015, the Attorney Examiner issued an Entry establishing a deadline for filing comments by August 14, 2015.

# II. SCOPE OF INVESTIGATION

 The scope of Staff’s investigation was to determine if the Applicant’s filed exhib­its, schedules, and other documents comply with the Commission’s guidelines, are rea­sonable for ratemaking purposes, and supported by financial records that are reasonable and reliable. Staff interviewed the Applicant’s key personnel and reviewed internal reports. The original cost of property was reviewed for reasonableness through an exam­ination of the Applicant’s continuing property records. In addition, the existence and used and useful nature of the assets were verified through physical inspections. Other independent analyses were performed by Staff as necessary.

# III. STAFF FINDINGS

## A. Infrastructure Plant

 The Applicant requests recovery of costs associated with system infrastructure improvements for the period of July 1, 2013 to March 31, 2015, in the amount of $14,242,188, from the accounts shown below:

Account 316 (Supply Mains) $1,709

Account 323 (Other Power Production Equipment) 14,358

Account 325 (Electric Pumping Equipment) 195,903

Account 328 (Other Pumping Equipment) 80,285

Account 332 (Water Treatment Equipment) 318,426

Account 343 (Mains) 10,041,267

Account 345 (Service Replacements) 2,028,722

Account 346 (Meters) 587,194

Account 347 (Meter Installations) 351,518

Account 348 (Hydrants) 619,769

Account 397 (Communication Equipment) 3,038

Total $14,242,188

 Staff verified the existence and used and useful nature of the assets via physical inspections and other independent analysis as practicable. Staff finds that these assets are complete and rendering public utility service to its customers.

 Staff selected a sampling of all projects for assessment and evaluation. Staff reviewed supporting documentation including task orders, continuing property records, and selected invoices. Staff examined $10,188,779, or approximately 72% of all plant additions.

 As a result of Staff’s substantive audit procedures, Staff recommends the exclu­sion of a variety of items pertaining to meals and office supplies totaling $3,220. Staff believes these items should be expensed rather than capitalized in a SIC case.

 Staff also recommends the exclusion of select osmosis membranes, meters, and valves. As part of the SIC, R.C. 4909.172(C)(1) authorizes cost recovery for replacement of existing plant, main extensions that meet certain criteria, and main cleaning and relin­ing. The reverse osmosis membranes purchased for the Blacklick Water Treatment Plant, which cost $14,587, are new and not replacement membranes. In the Mansfield Division, Aqua installed new meters for previously unmetered customers. The cost of the new meters and associated meter installation charges total $44,311. The Company also installed new valves to address water supply issues to existing customers. These costs totaling $150,853 for new plant are not SIC eligible. Therefore, Staff recommends that the Applicant remove $212,971 and the accompanying retirements of $40,100 from its SIC calculation.

## B. Depreciation

 Staff reviewed and analyzed the Applicant’s Schedule 4 (Provisions for Deprecia­tion), Schedule 5 (Annualized Depreciation Associated with Additions), and Schedule 6 (Annualized Reduction in Depreciation for Retirements).  Staff’s review included verify­ing that the Applicant is using the correct depreciation accrual rates prescribed in Case No. 13-2124-WW-AIR.

## C. Property Taxes

 Staff reviewed and analyzed the Applicant’s Schedule 5.1 (Annualized Addition in Property Taxes for Additions) and Schedule 6.1 (Annualized Reduction in Property Taxes for Retirements).  Staff recognizes that these schedules are consistent with filings in prior SIC cases. However, Staff recommends that the Applicant amend Schedule 5.1 and 6.1 to apply its latest known tax rate and not the rate prescribed in its last base-rate case to cal­culate the annualized property taxes. Staff also recommends that the Applicant amend Schedule 5.1 to break out the plant addition totals by year and apply the proper percent good for each year to calculate the true value of taxable property.

## D. Rate of Return

 The pre-tax rate of return is based on information contained in the Applicant’s rate filing in Case No. 13-2124-WW-AIR, and the rate of return authorized in the Commis­sion’s Opinion and Order dated September 10, 2014, approving the stipulated rate filing in that case. Staff finds that the Applicant’s pre-tax rate of return is correct and con­sistent with the Commission’s guidelines in O.A.C. 4901:1-15-35. The proposed sur­charge will provide a fair and reasonable rate of return on the Applicant’s valuation of costs associated with the system infrastructure improvements.

## E. Revenue Distribution

 R.C. 4909.172 states that an infrastructure improvement surcharge must be uni­form for each affected customer class. For a waterworks company, the surcharge may not exceed 4.25% of the rates and charges applicable to the class and in effect on the fil­ing date of the application. Fur­ther, the Commission shall not authorize a company to have more than three sur­charges in effect at any time.

 On May 1, 2015, the Applicant filed a tariff with a proposed SIC of 4.25%. The proposed surcharge would apply to all bills on a services rendered basis after the approval of the tariff for the customers in the Lake Erie Division, Masury Division, and the service areas formerly served by Ohio American Water Company.

 The surcharge of 4.25% would apply to all bills issued with the exception of the three contract customers: Whirlpool, Poet, and the Village of Roaming Shores. Prior to Aqua Ohio acquiring Ohio American Water, Aqua Ohio, Lake Erie Division, purchased water under contract from Ohio American. The customers served by Aqua Ohio (Village of Roaming Shores), while included in this filing under “Sales for Resale,” have been removed as they are under a contract.

 Staff concurs that the surcharge should not apply to contract customers Whirlpool, Poet, or the Village of Roaming Shores. Staff finds that the proposed surcharge does not exceed the 4.25% statutory limit, is distributed uniformly to all classes, and does not exceed the three surcharge maximum.

## F. Tariff Filings

 On July 1, 2015 in Case No. 15-403-WW-ATA, the Commission approved Aqua Ohio’s request to combine the rules and regulations sections of several existing tariffs and replace them with a single, consolidated tariff. Therefore, Staff recommends approval of the following language, to be contained on the proper pages of the new tariff and not the exact pages filed in the May 1, 2015 application in this docket:

 In addition to the charges provided for in this tariff for all metered and private fire rates, a surcharge of 4.25% will apply to all services rendered on or after [Order Date], 2015.

## G. Customer Notice

 The Applicant filed a proposed customer notice as Schedule 11 of the filing. Staff has reviewed the proposed customer notice and recommends that the customer notice be approved with the following change included:

Senate Bill 44, which became Ohio law on January 6, 2004, created an infrastructure improvement surcharge, known as the System Improvement Charge (SIC), to assist water and sewer companies to fund the replacement and rehabilitation of infra­structure including aging mains and plant that are cru­cial to service reliability and water quality.

Unlike other states, Ohio’s system improvement charge was created to cover both water and sewer companies, evidenced by Case No. 15-864-WS-SIC.

# IV. STAFF RECOMMENDATION

 After a thorough review of this application, Staff believes that, subject to the above recommendations, the Applicant’s May 1, 2015 filing is reasonable and recom­mends Commission approval of the proposed surcharge. The Applicant’s requested sur­charge revenues comply with the 4.25% limitation established in R.C. 4909.172(B)(2). Staff’s recommended adjustments, summarized in Attachment A, will reduce the Appli­cant’s annualized revenue requirement reflected on Schedule 1; how­ever, these recom­mendations will not impact the Applicant’s requested surcharge of 4.25%. Staff finds that the proposed surcharge will recover only those costs specifically related to the Appli­cant’s infrastructure improvements and does not provide any addi­tional base revenue to the Company.

 Respectfully submitted,

 **Michael DeWine**

 Ohio Attorney General

 **William L. Wright**

 Section Chief

 /s/ Ryan P. O’Rourke

 **Ryan P. O’Rourke**

 Assistant Attorneys General

 Public Utilities Section

 180 East Broad Street, 6th Floor

 Columbus, OH 43215-3793

 614.466.4397 (telephone)

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 **Counsel for the Staff of**

 **The Public Utilities Commission of Ohio**

# PROOF OF SERVICE

 I hereby certify that a true copy of the foregoing Comments submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via elec­tronic mail, upon applicant’s counsel, Rebekah J. Glover (glover@whitt-sturtevant.com), Whitt Sturtevant, 88 East Broad Street, Suite 1590, Columbus, Ohio, 43215, this 14th day of August, 2015.

/s/ Ryan P. O’Rourke

**Ryan P. O’Rourke**

Assistant Attorney General