**Before**

**The Public Utilities Commission of Ohio**

In the Matter of the Application of )

Aqua Ohio, Inc. to Increase Its Rates ) Case No. 13-2124-WW-AIR

and Charges for Its Waterworks Service. )

**City of Tiffin’s**

**Objections to the Staff Report of Investigation**

**and Summary of Major Issues**

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Pursuant to Section 4909.19, Revised Code, Rule 4901-1-28, Ohio Administrative Code (“O.A.C.”), and the Attorney Examiner’s Entry dated May 21, 2014, the City of Tiffin (“Tiffin”) hereby files its Objections to the Staff Report of Investigation and Summary of Major Issues (“Objections”) in the above-captioned matter. The Staff Report of Investigation (“Staff Report”) was filed on May 20, 2014. In submitting the Objections below, Tiffin reserves the right to contest, through presentation of documentary evidence, testimony, or cross-examination, issues on which the Public Utilities Commission of Ohio (“Commission”) Staff’s (“Staff”) position changes, or which are newly raised, between the issuance of the Staff Report and the closing of the record.

# Objections to the staff report

Tiffin objects to the Staff Report in the following particulars:

## Revenue Requirement

### 1. Tiffin objects to Staff’s recommended revenue decrease of $2,313,666 to $3,618,470 (see Staff Report at 50, Schedule A-1) relative to Aqua Ohio, Inc.’s (“Aqua”) requested revenue increase because such decrease is not large enough to yield just and reasonable rates in accordance with proper ratemaking practices and Ohio law.[[1]](#footnote-1) Based on Tiffin’s other objections below, the recommended revenue decrease should be greater in magnitude to flow through the effects of other adjustments required by proper ratemaking practices and Ohio law.

## Rate of Return

### 2. Tiffin objects to Staff’s proposed rate of return range of 7.20% to 7.73%.[[2]](#footnote-2) Staff’s proposed range fails to properly take into account the significant reductions in business and regulatory risks associated with regulatory lag that no longer exist for a waterworks public utility company in Ohio. Specifically, Ohio law authorizes a waterworks public utility, such as Aqua, to apply “for approval to collect an infrastructure improvement surcharge.”[[3]](#footnote-3) This surcharge compensates a waterworks public utility for “infrastructure plant costs” incurred after March 1, 2003, and which are not recovered through base rates.[[4]](#footnote-4) The surcharge also provides “a fair and reasonable rate of return” on the infrastructure plant that is included in the surcharge.[[5]](#footnote-5) The infrastructure plant eligible to be included in the surcharge includes:

In the case of a waterworks company, 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;[[6]](#footnote-6)

Aqua currently has such an infrastructure improvement surcharge called the System Improvement Charge (“SIC”). The ability to recover infrastructure improvement costs through the SIC recovery mechanism reduces the business and regulatory risks associated with the recovery of Aqua’s infrastructure improvement costs and that reduced risk should be reflected in the rate of return recommended by Staff. Staff, however, did not take into account Aqua’s reduced risk from the availability of the SIC when recommending its rate of return range.[[7]](#footnote-7) Accordingly, to account for this reduced risk, the Commission should adopt the low end of Staff’s recommended rate of return, 7.20%.

## Rates and Revenue Analysis

### 3. Tiffin objects to the Staff’s failure to recommend that the Commission apply the entire revenue differential between Aqua’s requested rate increase of $6,656,003 and the lesser revenue increase (or revenue decrease) authorized by the Commission to decrease the revenue responsibility and rates of customers in the prior American Division to remedy the unreasonable revenue burden allocated to customers in the prior American Division. As indicated by Aqua, Aqua has been moving towards a goal of consolidated uniform rates for all customers.[[8]](#footnote-8) Aqua also proposes to achieve consolidation over several rate cases; with several steps towards consolidation having already been taken by Aqua.[[9]](#footnote-9) In this case, Aqua proposes to achieve uniform customer charges across its four proposed consolidated divisions.[[10]](#footnote-10) Staff recommends that the Commission approve Aqua’s recommended transition to uniform customer charges across all four of its proposed divisions.[[11]](#footnote-11) Aqua did not propose to establish uniform volumetric rates across its four divisions as part of this proceeding. Aqua, however, did not provide any cost justification to support maintaining different volumetric rates across the four proposed divisions. Without any cost justification, Aqua proposes to increase the volumetric rates for customers in the prior American Division to the highest level of its four proposed divisions. The prior American Division has the highest current typical monthly bills and based upon Aqua’s proposed rates, *current* typical monthly bills for customers in the prior American Division will be greater than the typical monthly bills for customers in the remaining divisions based upon Aqua’s *proposed* increased rates. The following table summarizes this unreasonable outcome (impact based on 400 gallon per month consumption[[12]](#footnote-12)):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Division** | **Current**  **Bill** | **Projected Bill with Aqua’s Proposed Rates** | **Dollar Increase** | **Percent Increase** |
| Lake Erie West | $27.39 | $33.34 | $5.95 | 21.72% |
| Lake Erie East | $33.82 | $41.00 | $7.18 | 21.23% |
| Norlick | $36.00 | $41.00 | $5.00 | 13.89% |
| Masury | $33.39 | $41.00 | $7.61 | 22.79% |
| Prior American | $45.24 | $52.55 | $7.31 | 16.16% |

In the Staff Report, Staff noted that it supports Aqua’s proposed steps towards consolidation.[[13]](#footnote-13) While Staff reports on several aspects of Aqua’s proposed rates as a result of the consolidation process, Staff does not report on the reasonableness of Aqua’s allocation of revenue to the four divisions or the reasonableness of the differences in the proposed volumetric rates between the four divisions. Furthermore, the unreasonable revenue allocation to customers in the prior American Division frustrates the objective of eventually achieving uniform consolidated volumetric rates across Aqua’s system. The table below summarizes Aqua’s proposed rates:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Lake Erie East, Norlick, Seneca, and Masury**  **Proposed Rate** | **Lake Erie West**  **Proposed**  **Rate** | **Prior American**  **Proposed**  **Rate** |
| 1st Block | $0.80000 | $0.60851 | $1.08875 |
| 2nd Block | $0.68000 | $0.45638 | $0.81656 |
| 3rd Block | $0.48000 | $0.42596 | $0.43550 |

Aqua’s unreasonable revenue allocation maintains the significant separation in volumetric rates across its divisions, contrary to the consolidation process supported by Aqua and the Staff. To rectify the unreasonable revenue burden that Aqua proposes to assign to customers in the prior American Division, and to establish volumetric rates that are moving directionally towards uniform consolidated rates, the Commission should apply the entire revenue differential between Aqua’s requested rate increase of $6,656,003 and the lesser revenue increase (or revenue decrease) authorized by the Commission to decrease Aqua’s proposed revenue responsibility and rates of customers in the prior American Division to remedy the unreasonable revenue burden allocated to customers in the prior American Division.

# summary of major issues

The major issues in this case will be:

1. The magnitude of the increase in rates Staff recommended for Aqua over current rates.
2. The appropriate recognition of Aqua’s decreased business and regulatory risks associated with the availability of the SIC when establishing Aqua’s rate of return.
3. The appropriate revenue allocation to Aqua’s four proposed divisions.
4. The appropriate amount of consolidation in rates that should be achieved in this case.

Respectfully submitted,

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**Certificate of Service**

#### I hereby certify that a copy of the foregoing City of Tiffin’s Objections to the Staff Report of Investigation and Summary of Major Issues was served upon the following parties of record this 19th day of June 2014 via electronic transmission, hand-delivery or first class mail, U.S. postage prepaid.

/s/ Matthew R. Pritchard

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1. Overall, Staff recommends a revenue increase of $3,037,533 to $4,342,337. Staff Report at 50 (Schedule A-1). [↑](#footnote-ref-1)
2. *Id.* [↑](#footnote-ref-2)
3. Section 4909.172, Revised Code. [↑](#footnote-ref-3)
4. Section 4909.172(B)(1), Revised Code. [↑](#footnote-ref-4)
5. Section 4909.172(B)(2), Revised Code. [↑](#footnote-ref-5)
6. Section 4909.172(C)(1), Revised Code. [↑](#footnote-ref-6)
7. *See* Staff Report at 15-16. [↑](#footnote-ref-7)
8. Direct Testimony of David R. Monie at 3-4; Cost of Service Study at 1-2. [↑](#footnote-ref-8)
9. *Id.* [↑](#footnote-ref-9)
10. *Id.* [↑](#footnote-ref-10)
11. Staff Report at 24. [↑](#footnote-ref-11)
12. *Id.* at 27-28. [↑](#footnote-ref-12)
13. *Id*. at 22. [↑](#footnote-ref-13)