

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua :
Ohio, Inc. for Authority to Assess a System : Case No. 08-1239-WW-SIC
Improvement Charge in the Lake Erie :
Division. :

**COMMENTS
SUBMITTED ON BEHALF OF THE STAFF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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**On behalf of the Staff of
The Public Utilities Commission of Ohio**

January 15, 2009

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BACKGROUND

Effective January 6, 2004, Section 4909.172, Revised Code created an infrastructure improvement surcharge mechanism for water and wastewater companies to recover specific costs associated with certain distribution plant improvements. The Commission designed a set of guidelines and schedules to be followed by companies filing applications to recover these types of costs in Case No. 03-2266-WS-SIC, *In the Matter of the Information required for System Infrastructure Improvement Surcharge* (December 19, 2003).

On November 21, 2008, Aqua Ohio, Inc. filed an application proposing to collect a system improvement surcharge in its Lake Erie Division pursuant to the Commission's guidelines. The surcharge will be applied monthly and will increase the monthly bills of average residential customers by varying amounts depending on the particular subdivision of the Lake Erie Division in which a customer resides. An average customer in the former Lake Erie East Division using 3,750 gallons of water per month will see an

increase of \$0.89 per month. A customer in the former Lake Erie Division using on average 5,236 gallons per month will see an increase of \$0.87 per month. Customers of the former Norlick and Seneca utilities are billed on a flat rate and will see a monthly increase of \$0.90.

The Applicant currently has a SIC surcharge in effect for its Masury Division, *In the Matter of the Application of Aqua Ohio, Inc. for Authority to Collect a System Improvement Charge in the Masury Division*, Case No.08- 759-WW-SIC.

On December 2, 2008, the Attorney Examiner assigned to this case issued an Entry establishing that comments in this case should be filed no later than January 15, 2009.

SCOPE OF INVESTIGATION

The scope of the Staff's investigation was designed to determine if the Applicant's filed exhibits, schedules, and other documents comply with the Commission's guidelines and are reasonable for ratemaking purposes and if the financial records supporting this data are reasonable and reliable. The Staff interviewed the Applicant's key management personnel and reviewed internal and published financial reports. The Staff tested the original cost of property for reasonableness by examining the Applicant's continuing property records. In addition, the Staff verified the existence and used and useful nature of the assets via physical inspections and conducted other independent analyses as necessary.

The limited purpose of the Staff's investigation was to develop financial data for ratemaking purposes. The Staff's investigation was not intended to provide a basis for expressing an opinion on the financial statements of the Applicant as a whole.

STAFF FINDINGS

OPERATING INCOME AND RATE BASE

Plant Infrastructure Additions and Depreciation

The Applicant is proposing to recover distribution system infrastructure improvements placed into service during the period January 1, 2007 through September 30, 2008 in the amount of \$3,548,327 in the three accounts shown below:

Account 343 (Mains)	\$ 2,398,895
Account 345 (Service Replacements)	809,736
Account 348 (Hydrants)	<u>339,606</u>
Total	\$ 3,548,237

The Staff selected several projects from each of the three accounts for in-depth evaluation. Specifically, the Staff reviewed fifteen projects totaling \$2,535,305, or approximately 71% of all plant additions requested in this case. The Staff examined supporting documentation including task orders, continuing property records (CPRs), payroll records, overheads, inventory control records, and selected invoices associated with accounts 343, 345, and 348.

The Staff determined that all projects requested in the November 21, 2008 application consisted of mains and valves, service lines, and hydrants installed as part of replacement projects for existing facilities or to address documented service quality

issues in accordance with 4909.172, Revised Code. Since the projects are replacement of aging distribution related facilities, the Staff anticipates that they should help improve and maintain the service reliability of Aqua Ohio's systems. The Staff conducted a physical verification of the projects where possible. All projects are complete and used and useful in rendering public utility service to customers.

The Staff reviewed and analyzed the Applicant's revised Schedule 4 - Provision for Depreciation, Schedule 5 - Annualized Depreciation Associated with Additions, and Schedule 6 - Annualized Reduction in Depreciation for Retirements. The Staff verified that the Applicant used the correct accrual rates prescribed in the Applicant's most recent base rate case, *In the Matter of the Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in the Lake Erie Division*, Case No. 07-564-WW-AIR, and that the calculations are correct.

The Staff finds the Applicant's infrastructure plant costs and corresponding depreciation are accurate and reasonable for purposes of establishing a System Infrastructure Improvement Surcharge. The proposed surcharge will recover only those costs specifically related to the Applicant's infrastructure improvements.

RATE OF RETURN

The date certain in this proceeding is not later than three years from the date that the Applicant's existing rates and tariffs went into effect. As a result, the pre-tax rate of return is based on information contained in the Applicant's rate filing from Case No. 07-

564-WW-AIR and the rate of return on equity utilized in the stipulation attached to the May 14, 2008 Commission Order in that case.

Staff finds the Applicant's pre-tax rate of return is correct and consistent with the Commission's guidelines adopted in Case No. 03-2266-WW-SIC. The proposed surcharge will provide a fair and reasonable rate of return on the Applicant's November 21, 2008 filing date valuation of relevant infrastructure plant.

RATES AND TARIFFS

Revenue Distribution

Ohio Revised Code Section 4909.172 states that the surcharge chargeable to each affected customer class of the company shall not exceed three percent of the rates and charges applicable to the class and in effect on the date the application was filed and, as to the allowed percentage increase, shall be uniform for each such class.

The Applicant filed a tariff with a proposed System Improvement Charge of 3.0000%. The proposed System Improvement Charge surcharge would apply to all bills issued after the approval of the tariff and would be in addition to the charges provided for in the tariff for all metered and private fire service in the Aqua Ohio Lake Erie Division. For the customers in the Norlick Place and Lake Seneca Subdivisions, the surcharge will be in addition to all flat rate unmetered charges.

Staff finds that the proposed surcharge does not exceed three percent and is distributed uniformly to all classes.

R.C. 4909.172 also states that the Commission shall not authorize a company to have more than three surcharges in effect at any time. The Applicant has no existing System Improvement Charge Surcharges in effect in the Lake Erie Division.

The proposed surcharge is listed in:

Section 4-1, Sheet No. 2 and Section 4-4, Sheet No. 2 (former Lake Erie East) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all metered and private fire rates, a surcharge of 3% will apply to all bills issued after XXXXXX xx, 200X.

Section 4-2, Sheet No. 1 (former Norlick Place Water) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all flat rate unmetered service, a surcharge of 3% will apply to all bills issued after XXXXXX xx, 200X.

Section 4-3, Sheet No. 1 (former Seneca Utilities) of the Applicant's tariff as follows:

In addition to the charges provided for in this tariff for all rates and charges for unmetered service, a surcharge of 3% will apply to all bills issued after XXXXXX xx, 200X.

Staff finds the proposed layout to be reasonable and should be approved. Further, the Staff finds that the proposed surcharge does not exceed the three surcharge maximum and should be approved.

Customer Notice

On January 6, 2009 the Applicant filed amended customer notices. Staff has reviewed the Applicant's amended proposed customer notices and recommends that the amended customer notices be approved.

STAFF RECOMMENDATION

After a thorough review, the Staff is of the opinion that Aqua Ohio's November 21, 2008 filing, as revised, is reasonable and recommends approval of the proposed surcharge.

Respectfully submitted,

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**On behalf of 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 by regular U.S. mail, postage prepaid, or hand-delivered, upon the following parties of record, this 15th day of January, 2009.



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