

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Water and)
Sewer LLC to Increase its Rates for Sewer) Case No. 11-4509-ST-AIR
Service.)

ENTRY ON REHEARING

The Commission finds:

- (1) Pursuant to its August 15, 2012, Opinion and Order in this case, the Commission determined that the existing rates and charges governing sewer service to customers affected by the application are insufficient to provide Water and Sewer LLC (Water and Sewer or applicant) with adequate net annual compensation and return on its property used and useful in the rendition of sewer service. The Commission also determined that a 10 percent rate-of-return is fair and reasonable. The Commission set forth the applicable rate bases and approved revenue increases as of May 27, 2012; May 28, 2013; December 2, 2014; and May 28, 2019.

In the context of these determinations, the Commission found that the company should be allowed to continue to recover the amounts associated with the expense amortizations previously approved in Case Nos. 03-318-WS-AIR and 08-227-WS-AIR that had not yet been recovered. The Commission also determined the appropriate allowance for insurance expenses.

- (2) On September 11, 2012, Water and Sewer filed an application for rehearing regarding the Commission's Opinion and Order.
- (3) On September 21, 2012, the Village of Richfield (Village) filed its memorandum contra Water and Sewer's application for rehearing.
- (4) Section 4903.10, Revised Code, provides that any party who has entered an appearance in a proceeding may apply for rehearing with respect to any matter determined by the proceeding by filing an application within 30 days of the entry of the order in the Commission's journal. The Commission may grant and hold rehearing on the matter specified in the application if, in its judgment, sufficient reason appears to exist.

- (5) The application for rehearing has been timely filed as required by Section 4903.10, Revised Code.
- (6) In its first assignment of error, Water and Sewer asserts that the allowance for insurance incorporated in the authorized revenue requirement was not calculated in accordance with the Commission's decision relative to the disputed insurance expense issue. As a result, the applicant contends that the Commission understated the rate increase to which Water and Sewer is lawfully entitled.

In support of this assignment of error, Water and Sewer submits that the Commission, in its the Opinion and Order, clearly stated that the total annualized premium for the Commercial Package Policy (\$13,157) should be reduced by \$3,048 to reflect the cost of the premium that was attributable to coverage of the remaining water assets. According to Water and Sewer, the Commission also found that one-half of the \$1,347 cost of the premium associated with the General Liability Part of the Commercial Package Policy (i.e., \$673.50) should be allocated to Water and Sewer's affiliate, Richfield Furnace Run Associates (RFRA). Based on these determinations, Water and Sewer submits that the allowance for the Commercial Package Policy expense should have been \$9,435.54. When combining this amount with the amount allocated to the applicant for the Pollution Control Policy (\$2,599.68, which is half of the annualized premium of \$5,199.36), Water and Sewer asserts that total allowance for insurance expense is \$12,035.22.

The applicant notes that, rather than the calculated insurance expense of \$12,035.22, Schedule C-3.7 appended to the Commission Order reflects an adjusted insurance expense of \$7,654. Specifically, Water and Sewer attributes this difference to the fact that Schedule C-3.7 of the Commission's Order allocated one-half of all of the coverages under the Commercial Package Policy to RFRA (i.e., Commercial General Liability Coverage Part, Commercial Auto Coverage Part, Commercial Inland Marine Coverage Part, Commercial Umbrella Coverage Part, and Terrorism Insurance Coverage) and not just one-half of the Commercial General Liability Coverage Part. As a result, Water and Sewer asserts that the allowance for insurance expense is understated by \$4,381. Water and Sewer further

asserts that when its proposed correction is flowed through to the other affected revenue requirement schedules, the indicated revenue requirement becomes \$145,595, which translates into an increase in gross annual revenues of \$42,727 as opposed to the approved increase of \$38,426. Recognizing that it agreed that the authorized increase should be capped by the gross annual revenues that would be generated by the noticed rates, or \$41,260, Water and Sewer asserts that the revised revenue requirement should be \$144,128 with a resulting fixed bi-monthly rate of \$310.61, as originally proposed in the application.

Applicant also notes that the proposed correction for the insurance expense also affects the revenue requirements upon which each of the future rate reductions associated with the completion of the previously approved expense amortizations are based. Specifically, Water and Sewer represents that the revenue requirement associated with the completion of each of the previously approved amortizations are \$141,930, \$140,874, and \$138,420.

- (7) The Village submits that the record reflects that Water and Sewer was provided the opportunity to present all relevant evidence relating to the issue of the allowance of insurance expenses. Further, the Village asserts that the Opinion and Order considered the evidence presented on this issue and its decision relative to the allowance of insurance expenses is neither unreasonable nor unlawful. To the extent that the Commission does grant rehearing, the Village avers that Water and Sewer should not be allowed to present new evidence since there is no indication that such could not have been offered at the time of the hearing in this matter.
- (8) Upon a review of the arguments raised by Water and Sewer in its first assignment of error, the Commission finds that the application for rehearing should be granted. Specifically, the Commission agrees with the applicant that the calculation for the adjusted insurance expense reflected in Schedule C-3.7 of the Opinion and Order is not consistent with the determinations set forth in the Opinion and Order. Rather, when taking into account the two ordered adjustments relative to the insurance premium expense, the total adjusted insurance

expense for Water and Sewer should be \$12,192 as reflected on Schedule C-3.7 of this Entry on Rehearing.

- (9) In its second assignment of error, Water and Sewer asserts that the process approved by the Commission for effectuating the future rate reductions associated with the completion of the previously approved expense amortization is unreasonable and unduly burdensome, and the effective dates of the rate reductions identified in the Opinion and Order are inconsistent with the dates that the respective amortizations will be completed.

Specifically, Water and Sewer notes that, pursuant to the Commission's Opinion and Order as amended on by its Entry of August 29, 2012, tariff sheets associated with the completion of the expense amortizations previously approved in Case Nos. 03-318-WS-AIR and 08-227-WS-AIR are to be filed 31 days in advance of the effective date. Water and Sewer considers such an approach to be unreasonable and inefficient. Rather than requiring the applicants to incur the additional expense of repeated tariff filings, the applicant proposes that it be allowed to file one tariff sheet at this time reflecting the reduced fixed bi-monthly charges and the periods to which they apply. In support of its proposal, the applicant notes that the customer notice approved on August 29, 2012, already informed customers of the fact that future reductions will occur. In light of the initial customer notice and due to the fact that customers will be incurring rate reductions, and not an increase, Water and Sewer asserts that future customer notices are not necessary.

Additionally, Water and Sewer asserts that the amortizations approved in Case No. 03-318-WS-AIR (03-318) for test-year sludge removal (\$7,122) and the Ohio EPA mandated sludge management plan (\$3,700) will be completed with the bills issued on October 1, 2014, and not on December 2, 2014, as reflected in the Opinion and Order in this case. With respect to the approved amortization of the \$25,000 in emergency septage hauling expense approved in Case No. 08-227-WS-AIR (08-227), the amortizations should be completed with the April 1, 2019, bills.

Based on its identified modifications, the applicant filed a proposed revised tariff sheet (Second Revised Sheet No. 1, Section 2) reflecting the fixed bi-monthly rate that will apply in each of the identified periods as well as a proposed revised Subject Index tariff sheet, and customer notice. Applicant requests that the Commission approve these tariff sheets in the context of this application for rehearing in order to eliminate the need for approval by subsequent entry.

Consistent with the submission of a new customer notice, the applicant requests that the Commission modify its prior directive that the previously approved form of customer notice be mailed to customers immediately. Water and Sewer submits that to do otherwise, prior to the consideration of the application for rehearing, will result in customer confusion.

- (10) The Village asserts that rehearing on this issue should be denied inasmuch as the basis for the Commission's calculation of the reduced rates is not unreasonable or unlawful. Additionally, the Village asserts that the reduction in rates provided for in the Commission's Opinion and Order will ensure that Water and Sewer does not benefit from over-recovery on the amortized expenses.
- (11) Upon a review of the arguments raised by Water and Sewer in its second assignment of error, the Commission finds that the application for rehearing should be granted. Specifically, the Commission agrees with the applicant that the Opinion and Order failed to properly account for the actual billing cycles corresponding to the dates on which the riders approved in 03-318 and 08-227 expire. Therefore, the proposed customer notice and tariff sheets are approved at this time subject to the following modification to the tariff resulting from the corrected computations reflected in Schedules A-1 through C-4 attached to this Entry on Rehearing:

Bi-monthly Fixed Rate for Sewer Service

For Service Period Ending September 30, 2012:	\$288.65
For Service Periods Ending March 31, 2013	\$310.61
For Service Periods Ending September 30, 2014	\$306.27

For Service Period Periods Ending March 31, 2019 \$305.04

For Service Period Commencing April 1, 2019 \$300.19

The customer notice and tariff sheets should be substituted for the ones previously approved by the Commission. The customer notice should be included in the first bill incorporating the effective date of the new rates or mailed contemporaneously to the first bill. In regard to the need to file subsequent tariff sheets upon the completion of the previously approved amortizations, the Commission agrees with Water and Sewer that this is no longer necessary due to the fact that the submitted rate sheet includes the reduced fixed bi-monthly charges and the period to which they apply.

The Commission also agrees that there is no need for additional customer notices in subsequent years relative to the future rate decreases once the previously approved amortizations are recovered.

- (12) Applicant has also included the following additional three grounds for rehearing in its application for rehearing:
- (a) The disallowance of a portion of Water and Sewer's adjusted test-year insurance expense on the grounds that the company failed to sustain its burden of proof improperly ascribes a burden on the company that it was not required to meet and is contrary to the manifest weight of the evidence.
 - (b) The determination of the allowance for rate case expense is arbitrary and capricious.
 - (c) The requirement that the company file a substitution of service application no later than December 2013 is unreasonable and unlawful because the transfer involves matters beyond the company's control.
- (13) The Commission notes that the applicant has represented that if the Commission corrects the alleged error identified in the first two assignments of error pertaining to the calculation of the allowance for insurance expense, the assignments of error delineated in (a) and (b) of Finding (12) will, as a practical

matter, be moot due to the fact that the approved rate increase can be no higher than the rate proposed in the application. Therefore, based on the rulings set forth in Findings (8) and (11), these two assignments of error are now moot.

- (14) With respect to the remaining assignment of error set forth in (c) of Finding (12), Water and Sewer submits that issues such as the securing of the required funding, obtaining necessary land rights, and managing the pace of construction are all under the control of the Village. As a result of its inability to control these factors, the applicant contends that it is inappropriate for the Commission to establish a requirement that Water and Sewer file a substitution of service by a specified date. Rather, Water and Sewer believes that, on rehearing, the Commission should amend its Opinion and Order to provide that Water and Sewer should file a substitution of service application at the earliest possible date.
- (15) The Village responds to Water and Sewer's claim that certain events that precede the filing of a substitution of service application are outside of the applicant's control. Specifically, the Village asserts that Water and Sewer can certainly participate in resolving issues such as those related to financing. In support of its position, the Village references Joint Ex. 1 that was included as part of the record in this proceeding. According to the Village, Joint Ex. 1 reflects that the applicant and the Village will meet on a quarterly basis to discuss issues such as:

[O]ptions available to Richfield for funding the costs of the project, including, but not limited to, available grants and/or loans, assessments of benefitted properties within the village limits, tap-in fees charged to benefitted properties outside the village limits including property now owned by Richfield Furnace Run Associates (and how those fees might be structured), the transfer of Water and Sewer collection facilities to the Village at no cost (and the terms or conditions necessary for such transfer to occur), and possible additional contribution by Water and Sewer.

(Memorandum Contra at 4 citing Joint Ex. 1).

Based on the commitment set forth in Joint Ex. 1, the Village asserts that Water and Sewer cannot claim that the proposed sewer project is beyond its control. Rather, the Village believes that information from Water and Sewer regarding the amount that it will contribute to the project and the manner in which it will do so is critical. Therefore, the Village submits that the Commission's imposed deadline for Water and Sewer to file a substitution of service application helps to ensure that the applicant will diligently and timely cooperate with the Village on the sewer project.

As further support for its position, the Village notes that the quarterly meeting with the applicant scheduled for September 12, 2012, was postponed, in part, because Water and Sewer indicated that it was unaware of the scheduled date, despite the fact that the minutes of the prior meeting indicated as such.

- (16) Upon a review of the arguments set forth by Water and Sewer with respect to this assignment of error, rehearing is denied. While the Commission recognizes that there are some aspects of the project for which the applicant may not have control, the Commission expects good faith compliance with the stated deadline and compliance with all terms of the Joint Stipulation of Intent (i.e., Joint Ex. 1) entered into by the parties, including discussions related to financing. In fact, the Commission is greatly troubled by the fact that Water and Sewer was not prepared to attend the quarterly meeting scheduled for September 12, 2012. Failure to attend and to actively participate in good faith in future meetings with the Village will not be viewed favorably by the Commission.

Consistent with the August 15, 2012, Opinion and Order, Water and Sewer is to continue to work with the Village in order to ensure that the company will exit the sewer business and transfer control of service to a different sewer service provider no later than December 31, 2013. Water and Sewer must continue to provide Staff with monthly updates as to the progress being made regarding the transfer of service to the Village. Staff is to inform the Commission as to any issues related to the implementation of the Joint Stipulation of Intent. An application for the substitution of service should be filed at the earliest possible date, but no later than December 31, 2013. To the extent that the transfer cannot be completed by that date

then, on or before such date, Water and Sewer shall file a statement on the record in this docket explaining the reason for such delay and setting forth an anticipated date of completion.

(17) Based on the corrections set forth above, the Commission notes the following:

- (a) For the service period ending March 31, 2013, the revenues, expenses, and net operating income available for fixed charges realized by the applicant under its present rate schedules are \$102,868, \$127,764, and \$(24,896), respectively. This net annual compensation of \$(24,896) represents a rate-of-return of (22.09) percent on the jurisdictional rate base of \$112,678. A rate-of-return of (22.09) is insufficient to provide the applicant with reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to a rate base of \$112,678 will result in income available for fixed charges in the amount of \$11,268 through the March 2013 service period. This amount represents an over-recovery of revenue above what was noticed by the applicant. Therefore, the applicant is only entitled to income available for fixed charges in the amount of \$9,803 through the March 2013 service period. This represents a rate-of-return of 8.7 percent.

The allowable expenses of the company for the purposes of this proceeding are \$134,325 through the March 2013 service period. The allowable gross annual revenue to which the applicant is entitled for the purposes of this proceeding through the March 2013 service period is \$144,128.

- (b) For the time frame beginning April 1, 2013, and ending September 30, 2014, the revenues, expenses, and net operating income available for fixed charges realized by the applicant under its present rate schedules are \$102,868, \$124,593, and \$(21,725), respectively. This net annual

compensation of \$(21,275) represents a rate-of-return of (19.39) percent on the jurisdictional rate base of \$112,056. A rate-of-return of (19.39) is insufficient to provide the applicant with reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to a rate base of \$112,056 will result in income available for fixed charges in the amount of \$11,206 for the time frame beginning with the April 2013 service period and ending with the September 2014 service period. The allowable expenses of the company for the purposes of this proceeding are \$130,912 for the time frame beginning with the April 2013 service period and ending with the September 2014 service period. The allowable gross annual revenue to which the applicant is entitled for the purposes of this proceeding for the time frame beginning with the April 2013 service period and ending with the September 2014 service period is \$142,117.

- (c) For the time frame beginning October 1, 2014, and ending March 31, 2019, the revenues, expenses, and net operating income available for fixed charges realized by the applicant under its present rate schedules were \$102,868, \$124,106, and \$(21,238), respectively. This net annual compensation of \$(21,238) represents a rate-of-return of (18.98) percent on the jurisdictional rate base of \$111,876. A rate-of-return of (18.98) is insufficient to provide the applicant with reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to a rate base of \$111,876 will result in income available for fixed charges in the amount of \$11,188 for the October 2014 service period through the March 2019 service period. The allowable expenses of the company for the purposes of this proceeding are \$130,356 for the time frame beginning with the October 2014 service period and ending with the March 2019 service period. The allowable gross

annual revenue to which the applicant is entitled for the purposes of this proceeding for the time frame beginning with the October 2014 service period and ending with the March 2019 service period is \$141,545.

- (d) For the time frame beginning April 1, 2019, the revenues, expenses, and net operating income available for fixed charges realized by the applicant under its present rate schedules are \$102,868, \$122,229, and \$(19,361), respectively. This net annual compensation of \$(19,361) represents a rate-of-return of (17.37) percent on the jurisdictional rate base of \$111,459. A rate-of-return of (17.37) is insufficient to provide the applicant with reasonable compensation for the service rendered to customers affected by the application. A rate-of-return of ten percent applied to a rate base of \$111,459 will result in income available for fixed charges in the amount of \$11,146 for the time frame beginning with the April 2019 service period. The allowable expenses of the company for the purposes of this proceeding for the time frame beginning April 2019 are \$128,149. The allowable gross annual revenue to which the applicant is entitled for the purposes of this proceeding for the time frame of beginning April 2019 is \$139,293.

It is, therefore,

ORDERED, That the application for rehearing is granted in accordance with Findings (8) and (11). It is, further,

ORDERED, That the application for rehearing is denied in accordance with Finding (16). It is, further,

ORDERED, That the Opinion and Order issued in this proceeding be amended consistent with Finding (17). It is, further,

ORDERED, That certain assignments of error are now moot in accordance with Finding (13). It is, further,

ORDERED, That the tariff pages submitted as part of the application for rehearing are approved subject to the modifications addressed in this Entry on Rehearing. It is, further,


ORDERED, That the applicant file in this docket, final, revised tariff sheets consistent with the revisions addressed in this Entry on Rehearing. The revised tariff sheets should be filed in its TRF docket number, 89-7045-ST-TRF and in this docket. It is, further,


ORDERED, That a copy of this Entry on Rehearing be served upon all parties of record.

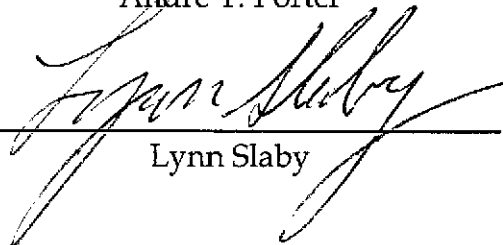
THE PUBLIC UTILITIES COMMISSION OF OHIO


Todd A. Shitchler, Chairman

Steven D. Lesser


Cheryl L. Roberto

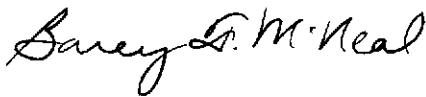

Andre T. Porter


Lynn Slaby

JSA/vrm

Entered in the Journal

SEP 26 2012



Barcy F. McNeal
Secretary

Barcy F. McNeal
Secretary

Effective Through March 2013 Service Period

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

		Lower Bound	Upper Bound
(1) Rate Base (a)	\$	112,678	\$ 112,678
(2) Adjusted Operating Income (b)		(24,896)	(24,896)
(3) Rate of Return Earned (2) / (1)		-22.09%	-22.09%
(4) Rate of Return Recommended (c)		10.00%	10.00%
(5) Required Operating Income (1) x (4)		11,268	11,268
(6) Income Deficiency (5) - (2)		36,163	36,163
(7) Gross Revenue Conversion Factor (d)		1.189114	1.189114
(8) Revenue Increase Required (6) x (7)		43,002	43,002
(9) Revenue Increase Recommended		41,260	41,260
(10) Adjusted Operating Revenue (b)		102,868	102,868
(11) Revenue Requirements (9) + (10)	\$	144,128	\$ 144,128
(12) Increase Over Current Revenue (9) / (10)		40.11%	40.11%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.291600% (a)	<u>1.291600</u>
(3) Net Revenue (1) - (2)	98.708400
(4) Federal Income Taxes (3) x 14.803400% (b)	<u>14.612199</u>
(5) Operating Income Percentage (3) - (4)	84.096201
(6) Gross Revenue Conversion Factor (1) / (5)	<u>1.189114</u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$ 533
(2) Staff's Recommended Revenue Increase (Schedule A-1)	41,260
(3) Uncollectibles	<u> </u>
(4) Net Revenue Increase	41,260
Effective Ohio Franchise Tax Rate (1) / (4)	<u>1.291600%</u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$ 41,260
(2) Increase in Franchise Tax	<u>533</u>
(3) Net Revenue Increase (1) - (2)	40,727
(4) Increase in Federal Income Taxes	<u>6,029</u>
(5) Effective FIT Rate (4) / (3)	<u>14.803400%</u>

Effective Through March 2013 Service Period

SCHEDULE B-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010

(1)	Plant in Service (a)	\$	103,898
(2)	Depreciation Reserve (b)		<u>12,753</u>
(3)	Net Plant in Service (1) - (2)		91,145
(4)	Construction Work in Progress (c)		
(5)	Working Capital Allowance (d)		21,533
(6)	Other Rate Base Items (e)		<u></u>
(7)	Rate Base (3) Thru (6)	\$	<u><u>112,678</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

Effective Through March 2013 Service Period

SCHEDULE B-5

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance**

(1)	Operation & Maintenance Expense (a)	\$	129,880
(2)	Expense Lag Dollars (1) / 6		21,647
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>21,533</u></u>

- (a) O&O Schedule C-2
- (b) Applicant Does Not Maintain M & S Inventory
- (c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 41,081	\$ 143,502
Late Fee Revenue	447	179	626
Total Operating Revenues	102,868	41,260	144,128
<u>Operating Expenses</u>			
Operation and Maintenance	129,880		129,880
Depreciation	1,828		1,828
Taxes, Other Than Income	458	533	990
Federal Income Taxes	(4,402)	6,029	1,627
Total Operating Expenses	127,764	6,562	134,325
Net Operating Income	\$ (24,896)	\$ 34,698	\$ 9,803
Rate Base (d)	\$ 112,678		\$ 112,678
Rate of Return (e)	-22.09%		8.70%

- (a) O&O Schedule C-2
 (b) O&O Schedule C-1.1
 (c) Columns (a) + (b)
 (d) O&O Schedule B-1
 (e) Net Operating Income / Rate Base

Effective Through March 2013 Service Period

SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 41,081
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>179</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u><u>41,260</u></u>
(4) Ohio Franchise Tax (b)	\$ <u><u>533</u></u>
(5) Federal Income Tax (b)	\$ <u><u>6,029</u></u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(53,785)	129,880
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(4,402)	(4,402)
Total Operating Expenses	190,191	(62,427)	127,764
Net Operating Income	\$ <u>(91,839)</u>	\$ <u>66,943</u>	\$ <u>(24,896)</u>

(a) Applicant's General Ledgers

(b) O&O Schedule C-3

(c) Columns (a) + (b)

Effective Through March 2013 Service Period

SCHEDULE C-3

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u><u>4,516</u></u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	7,312
C-3.7	Insurance Expense	(12,974)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(53,785)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(4,402)</u>
	Total Expense Adjustments	\$ <u><u>(62,427)</u></u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

Effective Through March 2013 Service Period

SCHEDULE C-3.6a

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment**

	<u>Case Number</u>	<u>Amort. Period</u>	<u>Start Date</u>	<u>Finish Date</u>	<u>Annual Allocation</u>
(1) Sludge - Major	03-318-WS-AIR	10	12/01/04	12/01/14	\$ 712
(2) Sludge - Management	03-318-WS-AIR	10	12/01/04	12/01/14	370
(3) Sludge - Emergency	08-227-WS-AIR	10	05/27/09	05/27/19	2,500
(4) Road Repair	08-227-WS-AIR	4	05/27/09	05/27/13	<u>3,730</u>
Total (1) - (4)					\$ <u><u>7,312</u></u>

Effective Through March 2013 Service Period

SCHEDULE C-3.7

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Insurance Expense Adjustment**

(1) Adjusted Insurance Expense (a)	\$ 12,192
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	<u>\$ (12,974)</u>

(a)	Initial Premium	Refund	Revised Premium	Allocation	
Commercial Property Coverage					
Commercial General Liability Coverage	\$ 1,347	\$ 312	\$ 1,035	\$ 518	50%
Commercial Auto Coverage	111	26	85	85	100%
Commercial Inland Marine Coverage	4,191	971	3,220	3,220	100%
Commercial Umbrella Coverage	7,500	1,737	5,763	5,763	100%
Terrorism	8	2	6	6	100%
Sub-Total	\$ 13,157	\$ 3,048	10,109	9,592	
Pollution Control			\$ 5,199	<u>2,600</u>	50%
Total Insurance				<u>\$ 12,192</u>	

(b) Applicant's 2010 PUCO Annual Report

Effective Through March 2013 Service Period

SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(4,402)
(2)	Test Year Federal Income Tax (b)		<hr/>
(3)	Adjustment (1) - (2)	\$	<hr/> <u>(4,402)</u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	<u>Adjusted Operating Income</u>	<u>Proforma Operating Income</u>
(1) Operating Income Before FIT (a)	\$ (29,298)	\$ 11,430
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(29,298)	11,430
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		583
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	583
(13) Federal Taxable Income (1) + (12)	(29,348)	10,847
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(4,402)	1,627
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(4,402)	1,627
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(4,402)	1,627
<u>Deferred Income Taxes</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.80%		
(26) Total Federal Income Taxes (21) + (25)	\$ (4,402)	\$ 1,627

Effective April 2013 Through September 2014 Service Period

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

		Lower Bound	Upper Bound
(1) Rate Base (a)	\$	112,056	\$ 112,056
(2) Adjusted Operating Income (b)		(21,725)	(21,725)
(3) Rate of Return Earned (2) / (1)		-19.39%	-19.39%
(4) Rate of Return Recommended (c)		10.00%	10.00%
(5) Required Operating Income (1) x (4)		11,206	11,206
(6) Income Deficiency (5) - (2)		32,931	32,931
(7) Gross Revenue Conversion Factor (d)		1.191877	1.191877
(8) Revenue Increase Required (6) x (7)		39,249	39,249
(9) Revenue Increase Recommended		39,249	39,249
(10) Adjusted Operating Revenue (b)		102,868	102,868
(11) Revenue Requirements (9) + (10)	\$	142,117	\$ 142,117
(12) Increase Over Current Revenue (9) / (10)		38.15%	38.15%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.570500% (a)	<u>1.570500</u>
(3) Net Revenue (1) - (2)	98.429500
(4) Federal Income Taxes (3) x 14.7600% (b)	<u>14.528194</u>
(5) Operating Income Percentage (3) - (4)	83.901306
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.191877</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$ 616
(2) Staff's Recommended Revenue Increase (Schedule A-1)	39,249
(3) Uncollectibles	<u> </u>
(4) Net Revenue Increase	39,249
Effective Ohio Franchise Tax Rate (1) / (4)	<u><u>1.570500%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$ 39,249
(2) Increase in Franchise Tax	<u>616</u>
(3) Net Revenue Increase (1) - (2)	38,633
(4) Increase in Federal Income Taxes	<u>5,703</u>
(5) Effective FIT Rate (4) / (3)	<u><u>14.7600%</u></u>

Effective April 2013 Through September 2014 Service Period

SCHEDULE B-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010

(1) Plant in Service (a)	\$	103,898
(2) Depreciation Reserve (b)		<u>12,753</u>
(3) Net Plant in Service (1) - (2)		91,145
(4) Construction Work in Progress (c)		
(5) Working Capital Allowance (d)		20,911
(6) Other Rate Base Items (e)		<u></u>
(7) Rate Base (3) Thru (6)	\$	<u><u>112,056</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

Effective April 2013 Through September 2014 Service Period

SCHEDULE B-5

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance

(1) Operation & Maintenance Expense (a)	\$	126,150
(2) Expense Lag Dollars (1) / 6		21,025
(3) Materials & Supplies (b)		
(4) 1/4 of Operating Taxes (c)		<u>114</u>
(5) Working Capital (2) + (3) - (4)	\$	<u>20,911</u>

(a) O&O Schedule C-2

(b) Applicant Does Not Maintain M & S Inventory

(c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses	Proforma Adjustments	Proforma Revenues & Expenses
	(a)	(b)	(c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 39,079	\$ 141,500
Late Fee Revenue	447	170	617
Total Operating Revenues	102,868	39,249	142,117
<u>Operating Expenses</u>			
Operation and Maintenance	126,150		126,150
Depreciation	1,828		1,828
Taxes, Other Than Income	458	616	1,074
Federal Income Taxes	(3,843)	5,703	1,860
Total Operating Expenses	124,593	6,319	130,912
Net Operating Income	\$ (21,725)	\$ 32,930	\$ 11,205
Rate Base (d)	\$ 112,056		\$ 112,056
Rate of Return (e)	-19.39%		10.00%

- (a) O&O Schedule C-2
 (b) O&O Schedule C-1.1
 (c) Columns (a) + (b)
 (d) O&O Schedule B-1
 (e) Net Operating Income / Rate Base

Effective April 2013 Through September 2014 Service Period

SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 39,079
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>170</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u>39,249</u>
(4) Ohio Franchise Tax (b)	\$ <u>616</u>
(5) Federal Income Tax (b)	\$ <u>5,703</u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	<u>Opinion and Order</u>		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(57,515)	126,150
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(3,843)	(3,843)
Total Operating Expenses	190,191	(65,598)	124,593
Net Operating Income	\$ <u>(91,839)</u>	\$ <u>70,114</u>	\$ <u>(21,725)</u>

- (a) Applicant's General Ledgers
 (b) O&O Schedule C-3
 (c) Columns (a) + (b)

Effective April 2013 Through September 2014 Service Period

SCHEDULE C-3

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u>4,516</u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	3,582
C-3.7	Insurance Expense	(12,974)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(57,515)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(3,843)</u>
	Total Expense Adjustments	\$ <u>(65,598)</u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

Effective April 2013 Through September 2014 Service Period

SCHEDULE C-3.6a

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment

	<u>Case Number</u>	<u>Amort. Period</u>	<u>Start Date</u>	<u>Finish Date</u>	<u>Annual Allocation</u>
(1) Sludge - Major	03-318-WS-AIR	10	12/01/04	12/01/14	\$ 712
(2) Sludge - Management	03-318-WS-AIR	10	12/01/04	12/01/14	370
(3) Sludge - Emergency	08-227-WS-AIR	10	05/27/09	05/27/19	<u>2,500</u>
Total (1) thru (3)					\$ <u>3,582</u>

Effective April 2013 Through September 2014 Service Period

SCHEDULE C-3.7

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Insurance Expense Adjustment**

(1) Adjusted Insurance Expense (a)	\$ 12,192
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u>(12,974)</u>

(a)	<u>Initial Premium</u>	<u>Refund</u>	<u>Revised Premium</u>	<u>Allocation</u>	
Commercial Property Coverage					
Commercial General Liability Coverage	\$ 1,347	\$ 312	\$ 1,035	\$ 518	50%
Commercial Auto Coverage	111	26	85	85	100%
Commercial Inland Marine Coverage	4,191	971	3,220	3,220	100%
Commercial Umbrella Coverage	7,500	1,737	5,763	5,763	100%
Terrorism	8	2	6	6	100%
Sub-Total	\$ 13,157	\$ 3,048	10,109	9,592	
Pollution Control			\$ 5,199	<u>2,600</u>	50%
Total Insurance				<u>\$ 12,192</u>	

(b) Applicant's 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(3,843)
(2)	Test Year Federal Income Tax (b)		<hr/>
(3)	Adjustment (1) - (2)	\$	<hr/> <u>(3,843)</u>

(a) O&Q Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (25,568)	\$ 13,067
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(25,568)	13,067
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		666
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	666
(13) Federal Taxable Income (1) + (12)	(25,618)	12,400
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(3,843)	1,860
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(3,843)	1,860
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(3,843)	1,860
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.76%		
(26) Total Federal Income Taxes (21) + (25)	\$ (3,843)	\$ 1,860

Effective October 2014 Through March 2019 Service Period

SCHEDULE A-1

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements**

		<u>Lower Bound</u>	<u>Upper Bound</u>
(1) Rate Base (a)	\$	111,876	\$ 111,876
(2) Adjusted Operating Income (b)		(21,238)	(21,238)
(3) Rate of Return Earned (2) / (1)		-18.98%	-18.98%
(4) Rate of Return Recommended (c)		10.00%	10.00%
(5) Required Operating Income (1) x (4)		11,188	11,188
(6) Income Deficiency (5) - (2)		32,426	32,426
(7) Gross Revenue Conversion Factor (d)		1.192791	1.192791
(8) Revenue Increase Required (6) x (7)		38,677	38,677
(9) Revenue Increase Recommended		38,677	38,677
(10) Adjusted Operating Revenue (b)		102,868	102,868
(11) Revenue Requirements (9) + (10)	\$	141,545	\$ 141,545
(12) Increase Over Current Revenue (9) / (10)		37.60%	37.60%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.657500% (a)	<u>1.657500</u>
(3) Net Revenue (1) - (2)	98.342500
(4) Federal Income Taxes (3) x 14.7500% (b)	<u>14.505519</u>
(5) Operating Income Percentage (3) - (4)	83.836981
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.192791</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$ 641
(2) Staff's Recommended Revenue Increase (Schedule A-1)	38,677
(3) Uncollectibles	<u> </u>
(4) Net Revenue Increase	38,677
Effective Ohio Franchise Tax Rate (1) / (4)	<u><u>1.657500%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$ 38,677
(2) Increase in Franchise Tax	<u>641</u>
(3) Net Revenue Increase (1) - (2)	38,036
(4) Increase in Federal Income Taxes	<u>5,609</u>
(5) Effective FIT Rate (4) / (3)	<u><u>14.7500%</u></u>

Effective October 2014 Through March 2019 Service Period

SCHEDULE B-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010

(1) Plant in Service (a)	\$	103,898
(2) Depreciation Reserve (b)		<u>12,753</u>
(3) Net Plant in Service (1) - (2)		91,145
(4) Construction Work in Progress (c)		
(5) Working Capital Allowance (d)		20,731
(6) Other Rate Base Items (e)		<u> </u>
(7) Rate Base (3) Thru (6)	\$	<u><u>111,876</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

Effective October 2014 Through March 2019 Service Period

SCHEDULE B-5

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance**

(1)	Operation & Maintenance Expense (a)	\$	125,068
(2)	Expense Lag Dollars (1) / 6		20,845
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>20,731</u></u>

(a) O&O Schedule C-2

(b) Applicant Does Not Maintain M & S Inventory

(c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 38,509	\$ 140,930
Late Fee Revenue	447	168	615
Total Operating Revenues	102,868	38,677	141,545
<u>Operating Expenses</u>			
Operation and Maintenance	125,068		125,068
Depreciation	1,828		1,828
Taxes, Other Than Income	458	641	1,099
Federal Income Taxes	(3,248)	5,609	2,361
Total Operating Expenses	124,106	6,250	130,356
Net Operating Income	\$ <u>(21,238)</u>	\$ <u>32,427</u>	\$ <u>11,189</u>
Rate Base (d)	\$ <u>111,876</u>		\$ <u>111,876</u>
Rate of Return (e)	<u>-18.98%</u>		<u>10.00%</u>

- (a) O&O Schedule C-2
 (b) O&O Schedule C-1.1
 (c) Columns (a) + (b)
 (d) O&O Schedule B-1
 (e) Net Operating Income / Rate Base

Effective October 2014 Through March 2019 Service Period

SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 38,509
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>168</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u>38,677</u>
(4) Ohio Franchise Tax (b)	\$ <u>641</u>
(5) Federal Income Tax (b)	\$ <u>5,609</u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(58,597)	125,068
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(3,248)	(3,248)
Total Operating Expenses	190,191	(66,085)	124,106
Net Operating Income	\$ <u>(91,839)</u>	\$ <u>70,601</u>	\$ <u>(21,238)</u>

- (a) Applicant's General Ledgers
 (b) O&O Schedule C-3
 (c) Columns (a) + (b)

Effective October 2014 Through March 2019 Service Period

SCHEDULE C-3

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments**

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u>4,516</u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	2,500
C-3.7	Insurance Expense	(12,974)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(58,597)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(3,248)</u>
	Total Expense Adjustments	\$ <u>(66,085)</u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

Effective October 2014 Through March 2019 Service Period:

SCHEDULE C-3.6a

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment

	<u>Case Number</u>	Amort. Period	Start Date	Finish Date	Annual Allocation
{1) Sludge - Emergency	08-227-WWS-AIR	10	05/27/09	05/27/19	\$ <u>2,500</u>

Effective October 2014 Through March 2019 Service Period

SCHEDULE C-3.7

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Insurance Expense Adjustment**

(1) Adjusted Insurance Expense (a)	\$ 12,192
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u>(12,974)</u>

(a)	<u>Initial Premium</u>	<u>Refund</u>	<u>Revised Premium</u>	<u>Allocation</u>	
Commercial Property Coverage					
Commercial General Liability Coverage	\$ 1,347	\$ 312	\$ 1,035	\$ 518	50%
Commercial Auto Coverage	111	26	85	85	100%
Commercial Inland Marine Coverage	4,191	971	3,220	3,220	100%
Commercial Umbrella Coverage	7,500	1,737	5,763	5,763	100%
Terrorism	8	2	6	6	100%
Sub-Total	\$ 13,157	\$ 3,048	10,109	9,592	
Pollution Control			\$ 5,199	<u>2,600</u>	50%
Total Insurance				\$ <u>12,192</u>	

(b) Applicant's 2010 PUCO Annual Report

Effective October 2014 Through March 2019 Service Period

SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(3,680)
(2)	Test Year Federal Income Tax (b)		<u> </u>
(3)	Adjustment (1) - (2)	\$	<u><u> (3,680)</u></u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (24,486)	\$ 13,550
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(24,486)	13,550
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		691
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	691
(13) Federal Taxable Income (1) + (12)	(24,536)	12,859
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(3,680)	1,929
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(3,680)	1,929
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(3,680)	1,929
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.75%		
(26) Total Federal Income Taxes (21) + (25)	\$ (3,680)	\$ 1,929

Effective April 2019 Service Period

SCHEDULE A-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Revenue Requirements

		Lower Bound	Upper Bound
(1) Rate Base (a)	\$	111,459	\$ 111,459
(2) Adjusted Operating Income (b)		(19,361)	(19,361)
(3) Rate of Return Earned (2) / (1)		-17.37%	-17.37%
(4) Rate of Return Recommended (c)		10.00%	10.00%
(5) Required Operating Income (1) x (4)		11,146	11,146
(6) Income Deficiency (5) - (2)		30,507	30,507
(7) Gross Revenue Conversion Factor (d)		1.194017	1.194017
(8) Revenue Increase Required (6) x (7)		36,425	36,425
(9) Revenue Increase Recommended		36,425	36,425
(10) Adjusted Operating Revenue (b)		102,868	102,868
(11) Revenue Requirements (9) + (10)	\$	139,293	\$ 139,293
(12) Increase Over Current Revenue (9) / (10)		35.41%	35.41%

- (a) O&O Schedule B-1
- (b) O&O Schedule C-2
- (c) Refer to Rate of Return Section
- (d) O&O Schedule A-1.1

Effective April 2019 Service Period

SCHEDULE A-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Gross Revenue Conversion Factor

(1) Gross Revenue	100.000000
(2) Ohio Franchise Tax (1) x 1.793000% (a)	<u>1.793000</u>
(3) Net Revenue (1) - (2)	98.207000
(4) Federal Income Taxes (3) x 14.7200% (b)	<u>14.456070</u>
(5) Operating Income Percentage (3) - (4)	83.750930
(6) Gross Revenue Conversion Factor (1) / (5)	<u><u>1.194017</u></u>

(a) Derived From Staff's Schedule C-1.1 as follows:

(1) Increase in Franchise Tax	\$ 653
(2) Staff's Recommended Revenue Increase (Schedule A-1)	36,425
(3) Uncollectibles	<u> </u>
(4) Net Revenue Increase	36,425
Effective Ohio Franchise Tax Rate (1) / (4)	<u><u>1.793000%</u></u>

(b) Calculation to Reflect Staff's Recommended Mid-Point Revenue Increase:

(1) Net Revenue Increase (a)	\$ 36,425
(2) Increase in Franchise Tax	<u>653</u>
(3) Net Revenue Increase (1) - (2)	35,772
(4) Increase in Federal Income Taxes	<u>5,267</u>
(5) Effective FIT Rate (4) / (3)	<u><u>14.7200%</u></u>

Effective April 2019 Service Period

SCHEDULE B-1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Rate Base Summary
As of Date Certain, December 31, 2010

(1)	Plant in Service (a)	\$	103,898
(2)	Depreciation Reserve (b)		<u>12,753</u>
(3)	Net Plant in Service (1) - (2)		91,145
(4)	Construction Work in Progress (c)		
(5)	Working Capital Allowance (d)		20,314
(6)	Other Rate Base Items (e)		<u>1</u>
(7)	Rate Base (3) Thru (6)	\$	<u><u>111,459</u></u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) O&O Schedule B-5
- (e) Staff's Schedule B-6

Effective April 2019 Service Period

SCHEDULE B-5

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Working Capital Allowance**

(1)	Operation & Maintenance Expense (a)	\$	122,568
(2)	Expense Lag Dollars (1) / 6		20,428
(3)	Materials & Supplies (b)		
(4)	1/4 of Operating Taxes (c)		<u>114</u>
(5)	Working Capital (2) + (3) - (4)	\$	<u><u>20,314</u></u>

(a) O&O Schedule C-2

(b) Applicant Does Not Maintain M & S Inventory

(c) Represents 1/4 of Operating Taxes Excluding Deferred Taxes

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2010

	Opinion and Order		
	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales Revenue	\$ 102,421	\$ 36,267	\$ 138,688
Late Fee Revenue	<u>447</u>	<u>158</u>	<u>605</u>
Total Operating Revenues	102,868	36,425	139,293
<u>Operating Expenses</u>			
Operation and Maintenance	122,568		122,568
Depreciation	1,828		1,828
Taxes, Other Than Income	458	653	1,111
Federal Income Taxes	<u>(2,625)</u>	<u>5,267</u>	<u>2,642</u>
Total Operating Expenses	122,229	5,920	128,149
Net Operating Income	\$ <u>(19,361)</u>	\$ <u>30,505</u>	\$ <u>11,144</u>
Rate Base (d)	\$ <u>111,459</u>		\$ <u>111,459</u>
Rate of Return (e)	<u>-17.37%</u>		<u>10.00%</u>

- (a) Staff's Schedule C-2
 (b) Staff's Schedule C-1.1
 (c) Columns (a) + (b)
 (d) Staff's Schedule B-1
 (e) Net Operating Income / Rate Base

Effective April 2019 Service Period

SCHEDULE C-1.1

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Proforma Adjustments

(1) Proposed Revenue Increase (a)	\$ 36,267
(2) Late Payment Revenue (1) x 0.435977% (a)	<u>158</u>
(3) Total Proposed Revenue Increase (1) + (2)	\$ <u>36,425</u>
(4) Ohio Franchise Tax (b)	\$ <u>653</u>
(5) Federal Income Tax (b)	\$ <u>5,267</u>

(a) Staff's Schedule C-1.1a

(b) O&O Schedule C-4

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Adjusted Test Year Operating Income

	Opinion and Order		
	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Wastewater Sales	\$ 98,352	\$ 4,069	\$ 102,421
Other Revenue		447	447
Total Operating Revenues	98,352	4,516	102,868
<u>Operating Expenses</u>			
Operation & Maintenance	183,665	(61,097)	122,568
Depreciation & Amortization	5,556	(3,728)	1,828
Taxes, Other Than Income	970	(512)	458
Income Taxes		(2,625)	(2,625)
Total Operating Expenses	190,191	(67,962)	122,229
Net Operating Income	\$ (91,839)	\$ 72,478	\$ (19,361)

- (a) Applicant's General Ledgers
 (b) O&O Schedule C-3
 (c) Columns (a) + (b)

Effective April 2019 Service Period

SCHEDULE C-3

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Summary of Staff's Adjustments**

		<u>Wastewater</u>
<u>Operating Revenues</u>		
C-3.1	Wastewater Revenue	\$ 4,069
C-3.2	Other Revenue	<u>447</u>
	Total Revenue Adjustments	\$ <u>4,516</u>
 <u>Operating Expenses</u>		
C-3.3	Operation Labor Expense	\$ (39,372)
C-3.4	Regulatory Commission Non Rate Case Expense	(253)
C-3.5	Sewer Lab Analysis Expense	(859)
C-3.6	Rate Case Expense	2,965
C-3.6a	Prior Case Amortization	
C-3.7	Insurance Expense	(12,974)
C-3.8	Electric Expense	13,821
C-3.9	Outside Services Expense	(22,403)
C-3.10	Landscaping Expense	(2,205)
C-3.11	Snowplowing Expense	(399)
C-3.12	Telephone Expense	<u>584</u>
	Total O & M Expenses	(61,097)
C-3.13	Depreciation & Amortization	(3,728)
C-3.14	Taxes Other Than Income	(512)
C-3.15	Federal Income Taxes	<u>(2,625)</u>
	Total Expense Adjustments	\$ <u>(70,847)</u>

Source: Staff's Schedules C-3.1 Through C-3.15 and O&O Schedules C-3.6a, and C-3.7

Effective April 2019 Service Period

SCHEDULE C-3.6a

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Prior Case Adjustment

(1) Prior Case Amortization

\$ _____

Effective April 2019 Service Period

SCHEDULE C-3.7

**Water and Sewer LLC
Case No. 11-4509-ST-AIR
Insurance Expense Adjustment**

(1) Adjusted Insurance Expense (a)	\$ 12,192
(2) Test Year Insurance Expense (b)	<u>25,166</u>
(3) Adjustment (1) - (2)	\$ <u>(12,974)</u>

(a)	Initial Premium	Refund	Revised Premium	Allocation	
Commercial Property Coverage					
Commercial General Liability Coverage	\$ 1,347	\$ 312	\$ 1,035	\$ 518	50%
Commercial Auto Coverage	111	26	85	85	100%
Commercial Inland Marine Coverage	4,191	971	3,220	3,220	100%
Commercial Umbrella Coverage	7,500	1,737	5,763	5,763	100%
Terrorism	8	2	6	6	100%
Sub-Total	\$ 13,157	\$ 3,048	10,109	9,592	
Pollution Control			\$ 5,199	<u>2,600</u>	50%
Total Insurance				<u>\$ 12,192</u>	

(b) Applicant's 2010 PUCO Annual Report

Effective April 2019 Service Period

SCHEDULE C-3.15

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Federal Income Tax Expense Adjustment

(1)	Adjusted Federal Income Taxes (a)	\$	(3,305)
(2)	Test Year Federal Income Tax (b)		<hr/>
(3)	Adjustment (1) - (2)	\$	<u><u>(3,305)</u></u>

(a) O&O Schedule C-4

(b) Applicant's 2010 Federal Income Tax Return and 2010 PUCO Annual Report

Water and Sewer LLC
Case No. 11-4509-ST-AIR
Calculation of Federal Income Taxes

	Adjusted Operating Income	Proforma Operating Income
(1) Operating Income Before FIT (a)	\$ (21,986)	\$ 13,786
<u>Reconciling Items:</u>		
(2) Interest Charges (b)		
(3) Book Depreciation (c)		
(4) Tax Accelerated Depreciation (d)		
(5) Excess of Tax Over Book Depreciation (3) - (4)		
(6) Other Reconciling Items		
(7) Total Reconciling Items (2) + (5) + (6)		
(8) State Taxable Income (1) + (7)	(21,986)	13,786
<u>Ohio Franchise Taxes</u>		
(9) Minimum \$50	50	
(10) \$50,000 x 5.1%		703
(11) Excess Over \$50,000 x 8.9%		
(12) Ohio Franchise Taxes (13) Through (15)	50	703
(13) Federal Taxable Income (1) + (12)	(22,036)	13,083
<u>Federal Income Taxes</u>		
(14) First \$50,000 x 15%	(3,305)	1,962
(15) Next \$25,000 x 25%		
(16) Next \$25,000 x 14%		
(17) Next \$235,000 x 39%		
(18) Next \$9,665,000 x 14%		
(19) Federal Income Taxes (14) Through (18)	(3,305)	1,962
(20) Investment Tax Credit Utilized		
(21) Federal Income Taxes - Current (19) - (20)	(3,305)	1,962
<u>Deferred Income Taxes:</u>		
(22) Tax Accelerated Depreciation (d)		
(23) Tax Straight Line Depreciation (d)		
(24) Excess of Tax Accelerated over Tax S/L Deprec. (22) - (23)		
(25) Deferred @14.72%		
(26) Total Federal Income Taxes (21) + (25)	\$ (3,305)	\$ 1,962