

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua :  
Ohio, Inc. for Authority to Assess a : Case No. 15-864-WS-SIC  
System Improvement Charge for Sewer :  
Disposal Service in the Franklin County :  
District :

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

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July 15, 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, expanding the capital improvements appropriate for inclusion in calculating the SIC. The revised language includes the following in wastewater capital improvements: “replacement of existing infrastructure including chemical feed systems, filters, pumps, motors, sludge-handling equipment, plant generators, mains and lift stations, main extensions that resolve documented sewage disposal problems presenting significant health or safety issues to then existing customers, and main cleaning, inflow and infiltration elimination, 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. 15-864-WS-SIC to collect an infrastructure improvement surcharge of 3% from wastewater customers in the Franklin County district. Through Case No. 15-863-WW-SIC, the Company simultaneously filed an application to collect an infrastructure improvement surcharge of 4.25% from water customers. 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 July 15, 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 considered necessary under the circumstances.

### **III. STAFF FINDINGS**

#### **A. Infrastructure Plant and Depreciation**

The Applicant requests recovery of costs associated with system infrastructure improvements for the period May 1, 2012 to March 31, 2015, in the amount of \$862,316.94, from the accounts shown below:

Account 352 (Collection Sewers)	\$122,967
Account 363 (Electric Pumping Equipment)	225,708
Account 365 (Other Pumping Equipment)	4,526
Account 371 (Structures and Improvements: Operations)	389,575
Account 372 (Treatment and Disposal Equipment)	86,130
Account 373 (Plant Sewers)	<u>33,411</u>
Total	\$862,317

Staff evaluated all thirty-one projects requested in the May 1, 2015 application. Staff examined supporting documentation including task orders, continuing property records, and selected invoices.

#### **1. Statutory Changes**

Effective March 27, 2013, the General Assembly expanded R.C. 4909.172(C)(2) to include replacement of existing infrastructure including pumps and sludge-handling equipment. In 2012, the Applicant replaced pumps at the Chatterton Lift Station and the Lake Darby Wastewater Treatment facility. These projects were completed before the effective date of the statutory changes, and therefore the projects should be removed from this application. Staff recommends that the Applicant remove the total project costs of \$30,973.43 and the accompanying retirements of \$13,443.04 from its SIC calculation.

In 2012, the Applicant also replaced parts on its belt press, which handles sludge. A contractor completed the belt press rebuild in November of 2012. Another contractor's electrical work was invoiced in September of 2013. Although Staff considers these costs appropriate under the revised statutory language, the belt press rebuild and the electrical work are distinct jobs. Therefore, the work completed prior to the effective date of the statute should be removed from this application. Staff recommends that the Applicant remove \$4,565.21 and the accompanying retirements of \$1,572.45 from its SIC calculation.

## **2. Smoke Tests**

R.C. 4909.172(C)(2) includes “main cleaning, inflow and infiltration elimination, or relining.” Inflow consists of non-wastewater entering the sanitary system via improper connections. Infiltration consists of non-wastewater entering the sanitary system indirectly through joints or breaks in pipes. Excessive inflow and infiltration (I&I) negatively impact wastewater facilities by straining the system capacity and creating problems that can lead to violations of environmental protection regulations.

The first step in executing an I&I elimination program is identifying the I&I. Smoke tests are a cost-efficient method to test the wastewater system and identify I&I problems. Smoke is forced into a sewer line, and the smoke will rise out of any breaks in the line.

Generally, tests are operating expenditures. The Uniform System of Accounts for Sewer Utilities states that inspecting or testing the condition of plant specifically to determine the need for repairs, replacements, rearrangements and changes is an operating expense.<sup>1</sup>

In 2014, the Applicant conducted smoke tests on the entire Huber Ridge Wastewater System and Blacklick Wastewater System, because the Applicant experienced heightened wastewater inflow at the treatment plants during wet weather conditions. The smoke tests were classified under Account 352 Collection Sewers. Through these tests, the Applicant identified numerous problems, which it (and in some cases, the responsible customer) repaired. Repairs of identified problems continue. None of the projects completed by March 31, 2015 were included in the application.

Staff supports the Applicant's efforts to maintain the system, eliminate I&I, and ultimately avoid future capital costs. However, Staff believes that smoke tests themselves are not a cost subject to capitalization. Therefore, Staff recommends that the Applicant remove the cost of the smoke tests, which total \$81,931.36, from its SIC calculation.

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<sup>1</sup> See Operating Expense Instructions in the Uniform System of Accounts for Sewer Utilities.

### **3. Rebates**

The Company received a rebate from AEP Ohio for decreased future demand on the AEP grid. The rebate was a direct result of the electrical system replacement at the Lake Darby wastewater treatment plant. Staff recommends adjusting the project cost by \$19,500 to recognize the rebate, which results in a new project cost of \$348,898.40.

### **4. 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. 11-4161-WS-AIR.<sup>2</sup> For Account 372 Treatment and Disposal Equipment, the Applicant used a 3.29% accrual rate; Staff recommends that the Applicant adjust the schedules to reflect the authorized 3.28% accrual rate. Further, Staff identified a minor error of \$197.00 on Schedule 6 in the calculation for the total depreciation expense. Staff verified that all other calculations were correct.

### **5. Property Taxes**

Staff reviewed and analyzed the Applicant's Schedule 5a (Annualized Addition in Property Taxes for Additions) and Schedule 6a (Annualized Reduction in Property Taxes

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<sup>2</sup> Aqua Ohio Water Company, Inc. purchased Ohio American Water's territories; therefore, depreciation accrual rates were from Ohio American Water's latest rate case.



for Retirements). Staff recognizes that these schedules are consistent with filings in prior SIC cases. However, Staff recommends that the Applicant amend Schedule 5a and 6a 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 5a 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.

## **B. 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.

## **C. Revenue Distribution**

R.C. 4909.172 states that an infrastructure improvement surcharge must be uniform for each affected customer class. The surcharge may not exceed three percent 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 3.0000%. The proposed surcharge would apply to all sewer services rendered after the approval of the tariff for the customers in Franklin County District. The Applicant does not have a SIC in effect at this time.

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

#### **D. Tariff Filings**

The proposed surcharge is listed on Original Sheet No. 1B of the Applicant's tariff as follows:

In addition to the sewer charges provided for in this tariff a surcharge of 3% will apply to all sewer services rendered on or after [date], 2015, for Franklin County Sewer District customers.

Staff finds the proposed layout for the above mentioned tariff page to be reasonable and should be approved.

#### **E. 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 this filing

#### **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 represent the three percent (3%) 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, Staff does not expect these recommendations to impact the Applicant's requested surcharge of 3%. 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*

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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](mailto:glover@whitt-sturtevant.com)), this 15<sup>th</sup> day of July, 2015.

*/s/ Ryan P. O'Rourke*

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**Ryan P. O'Rourke**  
Assistant Attorney General

AQUA OHIO INC.  
CASE NO. 15-864-WS-SIC  
Attachment A

LINE NO.	FERC ACCOUNT	PROJECT AUTHORIZATION #	ACCOUNT TITLE	COMPANY PLANT ADDITION	ADJUSTMENTS	ADJUSTED COMPANY PLANT ADDITION	COMPANY RETIREMENT	ADJUSTMENTS	ADJUSTED COMPANY RETIREMENT	COMMENTS
1	371	23046829567	Electrical Upgrade	\$ 368,398.40	\$ (19,500.00)	\$ 348,898.40	\$ 67,035.00	\$ -	\$ 67,035.00	To recognize an incentive based rebate issued to Aqua Ohio from AEP Ohio for decreased future demand on the AEP grid
2	363	23046857548	Pumping Equipment Replacement	\$ 25,923.95	\$ (25,923.95)	\$ -	\$ 10,750.66	\$ (10,750.66)	\$ -	Work completed before effective date of statutory changes authorizing recovery through SIC
3	363	23046877882	Pumping Equipment Replacement	\$ 5,049.48	\$ (5,049.48)	\$ -	\$ 2,692.38	\$ (2,692.38)	\$ -	Work completed before effective date of statutory changes authorizing recovery through SIC
4	372	23046875961	Belt Press Replacement	\$ 12,339.86	\$ (4,565.21)	\$ 7,774.65	\$ 1,572.45	\$ (1,572.45)	\$ -	Work completed before effective date of statutory changes authorizing recovery through SIC
5	352	23046827254	Smoke Test	\$ 40,593.32	\$ (40,593.32)	\$ -	\$ -	\$ -	\$ -	authorizing recovery through SIC
6	352	23046830083	Smoke Test	\$ 41,338.04	\$ (41,338.04)	\$ -	\$ -	\$ -	\$ -	Expenditure

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

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**Case No(s). 15-0864-WS-SIC**

Summary: Comments submitted by Assistant Attorney General Ryan O'Rourke on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio