

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

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

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August 14, 2015

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I. BACKGROUND

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

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

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

II. SCOPE OF INVESTIGATION

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

III. STAFF FINDINGS

A. Infrastructure Plant

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

Account 316 (Supply Mains)	\$1,709
Account 323 (Other Power Production Equipment)	14,358
Account 325 (Electric Pumping Equipment)	195,903
Account 328 (Other Pumping Equipment)	80,285
Account 332 (Water Treatment Equipment)	318,426
Account 343 (Mains)	10,041,267
Account 345 (Service Replacements)	2,028,722
Account 346 (Meters)	587,194
Account 347 (Meter Installations)	351,518
Account 348 (Hydrants)	619,769
Account 397 (Communication Equipment)	<u>3,038</u>
Total	\$14,242,188

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

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

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

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

B. Depreciation

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

C. Property Taxes

Staff reviewed and analyzed the Applicant's Schedule 5.1 (Annualized Addition in Property Taxes for Additions) and Schedule 6.1 (Annualized Reduction in Property Taxes for Retirements). Staff recognizes that these schedules are consistent with filings

in prior SIC cases. However, Staff recommends that the Applicant amend Schedule 5.1 and 6.1 to apply its latest known tax rate and not the rate prescribed in its last base-rate case to calculate the annualized property taxes. Staff also recommends that the Applicant amend Schedule 5.1 to break out the plant addition totals by year and apply the proper percent good for each year to calculate the true value of taxable property.

D. Rate of Return

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

E. Revenue Distribution

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

On May 1, 2015, the Applicant filed a tariff with a proposed SIC of 4.25%. The proposed surcharge would apply to all bills on a services rendered basis after the approval

of the tariff for the customers in the Lake Erie Division, Masury Division, and the service areas formerly served by Ohio American Water Company.

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

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

F. Tariff Filings

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

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

G. Customer Notice

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

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

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

IV. STAFF RECOMMENDATION

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

Respectfully submitted,

Michael DeWine
Ohio Attorney General

William L. Wright
Section Chief

/s/ Ryan P. O'Rourke

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**Counsel for the Staff of
The Public Utilities Commission of Ohio**

PROOF OF SERVICE

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

/s/ Ryan P. O'Rourke

Ryan P. O'Rourke
Assistant Attorney General

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

LINE NO.	FERC ACCOUNT	PROJECT AUTHORIZATION #	PROJECT DESCRIPTION	COMPANY PLANT ADDITION	ADJUSTMENTS	ADJUSTED COMPANY PLANT ADDITION	COMPANY RETIREMENT	ADJUSTMENTS	ADJUSTED COMPANY RETIREMENT	COMMENTS
1	343	23010090013	Main Replacement	\$ 165,604.29	\$ (47.40)	\$ 165,556.89	\$ 746.10	\$ -	\$ 746.10	Meal expenditures
2	343	23015083126	Main Replacement	\$ 120,836.87	\$ (10.70)	\$ 120,826.17	\$ -	\$ -	\$ -	Office supplies
3	343	23015092155	Main Replacement	\$ 197,602.97	\$ (45.06)	\$ 197,557.91	\$ 363.49	\$ -	\$ 363.49	Meal expenditure
4	343	23046078661	Main Replacement	\$ 658,585.09	\$ (209.54)	\$ 658,375.55	\$ 4,350.00	\$ -	\$ 4,350.00	Office supplies and meal expenditure
5	343	23046092714	Main Replacement	\$ 165,440.16	\$ (10.00)	\$ 165,430.16	\$ 2,041.52	\$ -	\$ 2,041.52	Meal expenditure
6	343	23046092724	Main Replacement	\$ 182,389.11	\$ (96.25)	\$ 182,292.86	\$ 1,048.89	\$ -	\$ 1,048.89	Office supplies
7	343	23046102644	Main Replacement	\$ 110,288.68	\$ (341.37)	\$ 109,947.31	\$ -	\$ -	\$ -	Office supplies
8	343	23046102681	Main Replacement	\$ 753,417.94	\$ (36.97)	\$ 753,380.97	\$ -	\$ -	\$ -	Meal expenditures
9	343	23046114262	Main Replacement	\$ 115,654.76	\$ (98.20)	\$ 115,556.56	\$ 1,420.68	\$ -	\$ 1,420.68	Office supplies
10	343	23046114263	Main Replacement	\$ 206,809.38	\$ (22.68)	\$ 206,786.70	\$ 881.70	\$ -	\$ 881.70	Meal expenditure
11	343	23046178221	Main Replacement	\$ 112,800.21	\$ (11.94)	\$ 112,788.27	\$ 763.84	\$ -	\$ 763.84	Meal expenditure
12	343	23046178341	Main Replacement	\$ 140,464.74	\$ (8.56)	\$ 140,456.18	\$ 18.20	\$ -	\$ 18.20	Meal expenditure
13	343	23046198081	Main Replacement	\$ 251,550.98	\$ (1,719.84)	\$ 249,831.14	\$ 10,395.56	\$ -	\$ 10,395.56	Office supplies and meal expenditures
14	343	23046202646	Main Replacement	\$ 569,106.67	\$ (195.73)	\$ 568,910.94	\$ 20,558.90	\$ -	\$ 20,558.90	Office supplies and meal expenditures
15	343	23046214276	Main Replacement	\$ 241,141.93	\$ (47.76)	\$ 241,094.17	\$ 2,919.43	\$ -	\$ 2,919.43	Office supplies and meal expenditures
16	343	23046393722	Main Replacement	\$ 268,046.70	\$ (44.92)	\$ 268,001.78	\$ 8,488.52	\$ -	\$ 8,488.52	Office supplies and meal expenditures
17	343	23046614282	Main Replacement	\$ 146,758.16	\$ (272.71)	\$ 146,485.45	\$ 8,059.68	\$ -	\$ 8,059.68	Office supplies and meal expenditures
18	343	23046027943	Main Replacement	\$ 8,872.68	\$ -	\$ 8,872.68	\$ 1,386.50	\$ (336.50)	\$ 1,050.00	Overstated retirement
19	343	23046092714	Main Replacement	\$ 165,440.16	\$ -	\$ 165,440.16	\$ 2,041.52	\$ (458.33)	\$ 1,583.19	Duplicate retirements for two locations
20	332	23046393629	Blacklick Membranes	\$ 14,587.39	\$ (14,587.39)	\$ -	\$ -	\$ -	\$ -	New membranes not SIC eligible
21	346	23046457566	Mansfield Meters	\$ 32,413.37	\$ (31,529.33)	\$ 884.04	\$ 15,133.54	\$ (14,511.46)	\$ 622.08	New meters are not SIC eligible. Twelve (12) meters were frozen and replaced.
22	347	23046457566 & 23046457567	Mansfield Meter Installation	\$ 12,781.49	\$ (12,781.49)	\$ -	\$ 25,826.90	\$ (24,793.82)	\$ 1,033.08	New meter installation not SIC eligible. Twelve (12) meters were frozen and replaced, but associated meter installation costs fall outside the SIC.
23	343	23010015183	Valve Installation	\$ 1,206.68	\$ (1,206.68)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
24	343	23015013827	Valve Installation	\$ 9,479.50	\$ (9,479.50)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
25	343	23015015860	Valve Installation	\$ 5,969.90	\$ (5,969.90)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
26	343	23046006481	Valve Installation	\$ 523.96	\$ (523.96)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
27	343	23046012181	Valve Installation	\$ 733.54	\$ (733.54)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
28	343	23046012822	Valve Installation	\$ 3,234.54	\$ (3,234.54)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
29	343	23046014509	Valve Installation	\$ 1,467.08	\$ (1,467.08)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
30	343	23046014510	Valve Installation	\$ 904.09	\$ (904.09)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
31	343	23046014512	Valve Installation	\$ 156.91	\$ (156.91)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
32	343	23046014515	Valve Installation	\$ 978.05	\$ (978.05)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
33	343	23046014516	Valve Installation	\$ 838.33	\$ (838.33)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
34	343	23046014517	Valve Installation	\$ 523.96	\$ (523.96)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
35	343	23046014662	Valve Installation	\$ 1,142.19	\$ (1,142.19)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
36	343	23046014684	Valve Installation	\$ 156.75	\$ (156.75)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
37	343	23046014722	Valve Installation	\$ 1,257.50	\$ (1,257.50)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
38	343	23046014723	Valve Installation	\$ 290.76	\$ (290.76)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
39	343	23046014742	Valve Installation	\$ 449.85	\$ (449.85)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
40	343	23046026489	Valve Installation	\$ 8,015.79	\$ (8,015.79)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
41	343	23046026764	Valve Installation	\$ 2,302.45	\$ (2,302.45)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
42	343	23046026765	Valve Installation	\$ 2,526.02	\$ (2,526.02)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
43	343	23046026925	Valve Installation	\$ 350.60	\$ (350.60)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
44	343	23046026926	Valve Installation	\$ 4,351.71	\$ (4,351.71)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
45	343	23046027306	Valve Installation	\$ 2,319.95	\$ (2,319.95)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible
46	343	23046027642	Valve Installation	\$ 6,008.34	\$ (6,008.34)	\$ -	\$ -	\$ -	\$ -	Installed valve not SIC eligible

47	343	23046027643	Valve Installation	\$	3,416.990	\$	(3,416.99)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
48	343	23046028308	Valve Installation	\$	1,720.770	\$	(1,720.77)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
49	343	23046028317	Valve Installation	\$	363.460	\$	(363.46)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
50	343	23046028427	Valve Installation	\$	3,979.650	\$	(3,979.65)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
51	343	23046028502	Valve Installation	\$	1,826.110	\$	(1,826.11)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
52	343	23046029537	Valve Installation	\$	208.540	\$	(208.54)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
53	343	23046029830	Valve Installation	\$	1,502.860	\$	(1,502.86)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
54	343	23046029855	Valve Installation	\$	8,864.520	\$	(8,864.52)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
55	343	23046029982	Valve Installation	\$	943.870	\$	(943.87)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
56	343	23046039086	Valve Installation	\$	6,245.770	\$	(6,245.77)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
57	343	23046070141	Valve Installation	\$	496.390	\$	(496.39)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
58	343	23046074201	Valve Installation	\$	1,397.220	\$	(1,397.22)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
59	343	23046077301	Valve Installation	\$	208.540	\$	(208.54)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
60	343	23046077521	Valve Installation	\$	1,088.770	\$	(1,088.77)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
61	343	23046097242	Valve Installation	\$	1,763.990	\$	(1,763.99)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible
62	343	23046558041	Valve Installation	\$	61,637.540	\$	(61,637.54)	\$	-	\$	-	\$	-	\$	-	-	\$	-	-	-	\$	-	Installed valve not SIC eligible

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Case No(s). 15-0863-WW-SIC

Summary: Comments submitted by Assistant Attorney General Thomas McNamee 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