

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)	
Aqua Ohio, Inc. to Increase Its Rates and)	Case No. 16-0907-WW-AIR
Charges for Its Waterworks Service.)	

**DIRECT TESTIMONY
OF
ELAINE J. MARTIN
ON BEHALF OF
AQUA OHIO, INC.**

- ☐ Management policies, practice and organization
- ☒ Operating income
- ☐ Rate base
- ☐ Allocations
- ☐ Rate of return
- ☐ Rates and tariffs
- ☐ Other

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1 **Direct Testimony of**
2 **Elaine J. Martin**

3 **I. BACKGROUND AND PURPOSE**

4 **Q1. Please state your name and business address.**

5 A. My name is Elaine J. Martin. My business address is 6650 South Avenue,
6 Boardman, Ohio 44512.

7 **Q2. By whom are you employed and in what capacity?**

8 A. I am employed by Aqua Ohio, Inc. (Aqua Ohio or the Company) as its Assistant
9 Controller.

10 **Q3. How long have you been associated with Aqua Ohio?**

11 A. I have been associated with Aqua Ohio since March 2012.

12 **Q4. Generally, Ms. Martin, what are your duties and responsibilities as Assistant**
13 **Controller of Aqua Ohio?**

14 A. As Assistant Controller, I am primarily responsible for assisting in the day-to-day
15 operations of the accounting department, which includes all financial reporting and
16 budgeting, as well as various administrative duties. Because of my responsibilities
17 with respect to the financial aspects of the Company, I am also involved in the
18 preparation of rate increase applications.

19 **Q5. Please outline your educational background and business experience.**

20 A. I am a 1988 graduate of Youngstown State University with a Bachelor of Science
21 degree in Business Administration with a major in Accounting. I am also a 2001
22 graduate of Youngstown State University with a Masters in Business
23 Administration. I have held an active license as a Certified Public Accountant in the
24 state of Ohio since February 2010. In March 2012 I was hired by Aqua Ohio as
25 Director of Accounting. I assumed my current position as Assistant Controller in
26 April 2014.

1 **Q6. Do you have experience in the regulatory ratemaking process?**

2 A. Yes. In addition to my work in connection with this filing, I was involved in the
3 preparation of the Lake/Masury/Prior American case 13-2124-WW-AIR.

4 **Q7. Are you familiar with the application filed by Aqua Ohio in Public Utilities**
5 **Commission Case No. 16-0907-WW-AIR?**

6 A. Yes, I am. My direct testimony in this case is in support of the Standard Filing
7 Requirements (SFR) schedules on which I am identified as the “Witness
8 Responsible.”

9 **II. SECTION C SCHEDULES**

10 **Q8. Turning to the SFR schedules you are sponsoring, please explain what is**
11 **contained on Schedule C-1.**

12 A. This schedule contains the jurisdiction’s proforma income statement of the PUCO
13 Regulated Water Divisions for the twelve months ended December 31, 2016, the test
14 year in this proceeding, and reflects three months of actual data and nine months of
15 projected data, as adjusted for ratemaking purposes. As shown on the schedule, on
16 an adjusted test year basis, the jurisdiction experienced operating income of
17 \$9,520,334 under its current rates, which produces a rate of return of 5.64%. The
18 proposed rates would, on a proforma basis, produce net operating income of
19 \$12,954,575, which represents a rate of return on the jurisdiction’s rate base of
20 7.67%.

21 **Q9. What is the nature of the amounts shown in the Schedule C-2, Column (C),**
22 **captioned “Adjustments”?**

23 A. These amounts are adjustments to reflect conditions existing at the time of the filing
24 of the Application, events that are anticipated which did not prevail during the entire
25 test year, or events reasonably expected to occur within the twelve months
26 immediately following the end of the test year in accordance with R.C. 4909.15(D).

1 When applying the adjustments to the amounts in Column (B), the operating income
2 is increased to \$9,520,334, as shown on Schedule C-2, Column (D).

3 **Q10. Could you describe your adjustment totaling \$1,917,282 to Operating Revenues**
4 **on Schedule C-2, Column (C), Line 7?**

5 A. The revenue in Column B of Schedule C-2 reflects the actual revenue for three
6 months ending March 31, 2016, and the budgeted revenue for the nine months
7 ending December 31, 2016, at current rates. The consumption and revenue as stated
8 on E-4 represent the actual consumption for the 12 months ending December 31,
9 2015. The adjustments show the transition from unadjusted test year revenue to pro
10 forma revenue under current rates.

11 **Q11. Would you please describe the adjustments under the heading “Operating**
12 **Expenses” of Schedule C-2, Column C, Line 14?**

13 A. The adjustments are as follows:

14 1. Salaries and wages for management are at the projected rate as of April 1, 2017.

15 The wages for the bargaining units are adjusted to the rates effective at various
16 times per the actual or projected union contract prior to October 31, 2017. The
17 number of employees has also been adjusted to reflect the current labor
18 complement with an adjustment made for allocation of wages for employees that
19 also work in jurisdictional areas not included in this case. The calculation and the
20 adjustment of \$434,184 are shown on Schedule C-3.4.

21 2. The uncollectible accounts expense must be adjusted to reflect the adjusted
22 revenues on Schedule E-4. Schedule C-3.5, Line 6, shows an uncollectible
23 expense percentage of 1.02% and results in a test-year uncollectible expense of
24 \$620,580, which, if subtracted from the amount in the test year of \$656,797

requires an adjustment of (\$36,217). The uncollectible expense percentage of 1.02% is calculated by taking the net charge offs as a percent of revenue.

3. The rate case expense for this case is estimated to be \$500,000 on Schedule C-8, Column B, Line 11. A three-year amortization period would result in increasing test year expenses by \$50,015 as shown on Schedule C-3.6. These expenses include fees and costs for outside consultants, legal services, customer notices, printing and binding of exhibits, and other miscellaneous costs.

4. As part of the depreciation study that was completed in 2016, a capital account has been established and existing capitalized tank paintings have been transferred to the account. Going forward all tank painting will be capitalized and depreciated over a 15-year life which was the approved amortization period from Case No. 13-2124-WW-AIR. The accrued amortization balance as of December 31, 2016, will be recovered over the same 15-year period resulting in a test-year adjustment of (\$605,587) as shown on C-3.7.

5. The test year employee insurance expense was calculated using the current employee elections and projected (net) rates effective January 1, 2017. The revised hospitalization expense of \$1,547,043 is compared to the test year expense of \$1,477,897, resulting in an adjustment of \$69,146 as shown on Schedule C-3.8.

6. The post-retirement benefit expense of (\$367,746) is based on the latest actuarial forecast and to this amount is added the portion of amortization related to the regulatory asset allowed in Case No. 13-2124-WW-AIR of \$31,820. These revised costs of (\$335,926) are compared to the expense of (\$287,713) included

1 in the test year expense on C-2, resulting in an adjustment of (\$48,213) reflected
2 on Schedule C-3.9.

3 7. The pension costs of \$1,208,952 are based on the latest actuarial forecast and to
4 this amount is added the amortization of the regulatory assets allowed in Case
5 No. 13-2124-WW-AIR of \$372,543. These revised costs of \$1,581,495 are
6 compared to the expense of \$1,572,861 included in the test year expense on C-2,
7 resulting in an adjustment of \$8,634 reflected on Schedule C-3.10.

8 8. The billing expense was increased by \$1,555 to accommodate the move from
9 quarterly billing to monthly billing for the prior Tomahawk properties not
10 already being billed monthly. The adjustment of \$1,555 is shown on C-3.11.

11 9. Transportation expense was adjusted (\$1,094) and workers compensation
12 expense was adjusted for (\$513) for a total of (\$1,606) to allow for the operating
13 contracts. The adjustment of (\$1,606) is reflected on Schedule C-3.12.

14 10. Purchased water expense was not adjusted in this case due to projected expenses
15 being in-line with the test year. No increase is reflected on Schedule C-3.13.

16 11. The sludge expense of \$125,000 was adjusted to reflect current contract rates for
17 the hauling and disposal of the sludge. The sludge adjustment of \$4,010 is
18 reflected on C-3.14. Source of Supply maintenance cost of \$200,600 was
19 adjusted for current costs of cleaning the intake in Ashtabula and additional well
20 cleaning at the satellite systems and other divisional locations. The adjustment of
21 \$5,678 is shown on C-3.14. These two expense items make the total adjustment
22 for maintenance operations \$9,688.

1 12. Chemical costs were not adjusted in this case due to the projected expenses being
2 in-line with the test year and reflect anticipated costs in a normal year of
3 operation. No adjustment is shown on schedule C-3.20.

4 13. The power costs were not adjusted in this case due to the projected expenses
5 being in-line with the test year and reflect anticipated costs in a normal year of
6 operation. No adjustment shown on C-3.21.

7 14. The employee contribution thrift plan expense was calculated using the current
8 employee elections, rates per the respective group and company contribution.
9 The employee-contributed thrift plan expense of \$559,366 is compared to the test
10 year expense of \$413,574, resulting in an adjustment of \$145,792 as shown on
11 Schedule C-3.22.

12 The sum of the above paragraphs one through fourteen totals \$27,390, which
13 is the adjustment in Column C line 14 of Schedule C-2.

14 **Q12. Would you explain your adjustments to depreciation expense on Schedule C-2,**
15 **Column C, Line 16?**

16 A. The depreciation expense in Column B of Schedule C-2 includes depreciation on
17 assets placed in service as of December 31, 2016.

18 It has been the Commission's procedure to calculate the annual depreciation
19 expense on the property in service at date certain; therefore, this calculation has been
20 made on Schedule B-3.2, Page 16 of 16, Column F, as \$8,261,968, resulting in
21 increased depreciation expense of \$461,925 as shown on Schedule C-3.15.

22 **Q13. Would you explain your computations to arrive at the adjustment of \$361,180**
23 **increasing Taxes Other Than Income on Schedule C-2, Column C, Line 18?**

24 A. The "Taxes Other Than Income" adjustment is made up of property taxes, excise tax
25 and payroll taxes as follows:

- 1 1. The test year property taxes before adjustment of \$11,261,337 on Schedule C-
2 2.1, Page 7 of 8, Column E, Line 14, were computed before the actual rates and
3 valuation were known for the year 2016, and estimates were used. The assessed
4 valuation at date certain is based on the plant in service less OWDA property
5 plus inventory times the assessed valuation percentage from December 31, 2014.
6 The assessed valuation times the average property tax rate of \$85.01 per \$1,000
7 equals \$11,525,784 resulting in an adjustment for property tax of \$264,447 as
8 shown on Schedule C-3.16.
- 9 2. The test year excise tax needs to be adjusted for the pro forma adjustments to test
10 year operating revenue. Test year operating revenue is reduced by the amount of
11 bad debt expense from Schedule C-3.5 which results in an excise tax expense
12 adjustment of \$65,943 as shown on Schedule C-3.17.
- 13 3. The adjustment to payroll taxes is \$30,790 which is shown on Schedule C-3.18
14 adjusts payroll tax expense based on the pro forma labor expenses shown on
15 Schedule C-3.4. Federal and state unemployment tax, and FICA and Medicare
16 were all calculated at current taxable rates.

17 **Q14. Would you explain your computation of the adjustment to Federal income tax**
18 **on Schedule C-2, Column C, Line 19?**

- 19 A. Federal income tax adjustment is shown on Schedule C-3.19 This adjustment is
20 necessary to reflect the impact of the Company's proposed pro forma adjustments to
21 revenues, expenses, depreciation, general taxes, and the impact of interest
22 synchronization in the tax calculation as shown on Schedule C-4. The Company is
23 proposing the use of the statutory current federal tax rate of 35%. Schedule C-3.19
24 reflects an adjustment for a repair tax deduction, which is shown as a reconciling

1 item, and deferred taxes resulting from temporary timing differences. Schedule C-
2 3.19 also has an adjustment for investment tax credit.

3 **Q15. Ms. Martin, would you summarize your Schedule C-3 and how it relates to your**
4 **test-year operating income?**

5 A. Schedule C-3 shows the adjustments by income statement grouping. The net of the
6 Total Revenue Adjustments and Total Expense Adjustments is \$969,775 and can be
7 found on Schedule C-2, Column C, Line 23. Applying the adjustments to the
8 unadjusted column results in Column D, "Adjusted Revenue and Expenses." The
9 adjusted test year operating income is \$9,520,334 and the amounts in Column D are
10 carried forward to Schedule C-1, Column B.

11 **Q16. Does this conclude your direct testimony?**

12 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of Elaine J. Martin was served by electronic mail to the following persons on this 14th of June, 2016:

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One of the Attorneys for Aqua Ohio, Inc.

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Summary: Text Direct Testimony of Elaine J. Martin electronically filed by Ms. Rebekah J. Glover on behalf of Aqua Ohio, Inc.