



Public Utilities Commission

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Commissioners

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December 19, 2017

Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street
Columbus OH 43215

RE: *Island Waterworks, LLC*

Dear Docketing Division:

Enclosed please find the Staff's Comments in regards to the application filed by Island Waterworks, LLC for a Certificate of Public Convenience and Necessity, Case No. 17-0201-WS-ACE and in the Commission Ordered Investigation, Case No. 16-1100-WS-COI.

A handwritten signature in black ink, reading "Tamara S. Turkenton".

Tamara S. Turkenton
Chief, Regulatory Services Division
Public Utilities Commission of Ohio

A handwritten signature in black ink, reading "David Lipthratt".

David Lipthratt
Chief, Research and Policy Division
Public Utilities Commission of Ohio

Island Waterworks, LLC
Case No. 17-0201-WS-ACE
Case No. 16-1100-WS-COI

Summary

Island Waterworks, LLC (Island Waterworks or Applicant), is an Ohio company proposing to engage in the business of maintaining and operating a waterworks and sewage disposal system that renders services in the area of Middle Bass, Ohio. Island Waterworks is a single-member Ohio limited liability company. Island Productions, LLC is the sole member owning 100 percent of the interest in Island Waterworks. In turn, Island Waterworks owns 100 percent of the assets associated with the waterworks and sewage disposal systems. Edmund Gudenas is the statutory agent for both the Applicant and Island Productions, LLC.

Island Waterworks proposes to provide water and sewer service to St. Hazards Yacht Club Condominium Association dba Middle Bass Lakeshore Condominiums (Condominium Association), Hazards Adventures Company, and Island Productions, LLC on Middle Bass Island, Middle Bass, Ohio. Island Waterworks will serve both residential and non-residential facilities.

On May 13, 2016, the Attorney Examiner filed a memorandum opening a Commission Ordered Investigation of Island Productions, LLC in Case No. 16-1100-WS-COI¹. On May 25, 2016, the Attorney General on behalf of the PUCO Staff, filed both a Staff Report of Investigation and a motion requesting that the Commission declare Island Productions, LLC a public utility and to direct Island Productions, LLC to comply with Title 49.

On June 9, 2016, Island Productions, LLC filed a memorandum opposing Staff's motion, along with a motion seeking to convert the proceeding from an investigation into an application for a certificate to operate as a provider of water and wastewater services.

On January 20, 2017, Island Waterworks filed an application for a Certificate of Public Convenience and Necessity (Application) in Case No. 17-201-WS-ACE. On February 17, 2017, the Applicant filed correspondence to include Exhibit 5, which was inadvertently omitted from the Application.

On February 28, 2017, Staff filed Comments identifying the Application to be deficient in that it failed to comply with OAC 4901:1-15-05, which requires a metes and bounds description. Staff requested that Island Waterworks comply with this requirement.

On April 18, 2017, the Applicant filed the metes and bounds description along with other supplemental information.

On June 1, 2017, an Attorney Examiner entry ordered publication of legal notice on or before July 12, 2017. The Applicant filed proof of publication with the Commission on July 12, 2017.

¹ See *In the Matter of the Commission Ordered Investigation of Island Productions, LLC*, Case No. 11-1600-WS-COI, Motion to Declare Island Productions, LLC, a Public Utility and to Direct Compliance with Title 49 (May 25, 2016)(*Island Productions COI*).

Summary of Staff's Recommendations

Pursuant to R.C. 4905.02(A)(2), the Applicant is a public utility providing water and wastewater service in Ohio. Therefore, Staff recommends that the Applicant come into compliance with the various obligations of public utilities subject to PUCO oversight, including but not limited to establishing and maintaining accounting records in accordance with the applicable Uniform System of Accounts and a continuing property record, which correctly reflects plant additions, transfers, and retirements.

In its Application, Island Waterworks proposes annual revenue of \$180,150 for water and \$162,585 for wastewater service. Based on a review of the Application, the Staff of the PUCO (Staff) finds the proposals in the Application, including but not limited to the Applicant's proposed annual revenue, to be unjust and unreasonable. Through its investigation, Staff determined an appropriate annual revenue requirement for the Applicant. As shown on Schedule A-1, Staff recommends annual revenue in the range of \$72,546 to \$73,481 for water and \$81,788 to \$83,714 for wastewater service. Also, Staff recommends that the Company file tariffs to reflect Staff's proposed tariff changes.

OPERATING INCOME AND RATE BASE

Scope of Investigation

The scope of the investigation was to determine if the Applicant's filed exhibits and subsequent revisions are reasonable and if the supportive financial and statistical records can be relied upon. Staff interviewed the Applicant's key management personnel and reviewed the financial information submitted to assure understanding of the Applicant's operations and organization. In developing an appropriate annual revenue requirement, Staff's investigation of test year operating income and rate base included verification of the operating revenue computation and an examination of the Applicant's property information. In addition, Staff verified the existence and used and useful nature of the assets through physical inspections. Staff performed other independent analyses it considered necessary.

The Application included a "2015/2016 Income Statement" and "2016 Balance Sheet". In developing an appropriate revenue requirement, the Applicant-provided income statement and December 31, 2016 were used as test year operating income and the date certain, respectively. Staff reviewed and analyzed the supporting information provided. As a result of its review and analysis, Staff accepted some of the proposed expenses, changed some of the Applicant's proposed expenses using alternative approaches, and/or proposed new adjustments. Staff's adjustments make the test year operating income and rate base consistent with sound regulatory accounting practices, more representative of normal operations and appropriate for ratemaking purposes.

The purpose of Staff's investigation was to develop financial data for ratemaking purposes; it was not intended to provide a basis for expressing an opinion on the financial statements of the Company as a whole. The following sections of this report summarize the results of Staff's investigation, which Staff believes are relevant to the determination of test year operating income and rate base. Staff presents these sections in the general order in which the schedules are presented at the end of this document.

Revenue Requirement

Schedule A-1 presents Staff's determination of the Applicant's revenue requirements and recommended revenue. Staff adjusted the gross revenue conversion factor to account for the Applicant's current net operating loss as this portion of the revenue deficiency is not subject to income tax. The calculation is shown on Staff's Schedule A-1.1.

These determinations are based on the examination of the accounts and records of the Applicant for the twelve months ending December 31, 2016, the test year in this proceeding. The results of Staff's examination are summarized in this report, which also includes the schedules that incorporate Staff's recommended rate of return, rate base, and adjusted test year operating income.

RATE BASE

The rate base represents the net value of the Applicant's property and other assets as of the date certain, December 31, 2016, that were used and useful in providing service to its customers, and upon which its investors are entitled to the opportunity to receive a fair and reasonable rate of return.

Staff's analysis of rate base is divided into Plant in Service, Depreciation, Construction Work in Progress, Working Capital, Other Rate Base Items, and Jurisdictional Allocations. Staff's recommended rate base is shown on Schedule B-1. Schedules B-2 through B-6 provide additional support for Staff's base rate findings. Below is a summary of Staff's recommended adjustments.

Plant in Service

The plant in service, as presented by the Applicant, is the surviving original cost of the plant that is used and useful in providing water and wastewater utility service to its customers. As a result of Staff's investigation and review of the application, Staff recommends that adjustments be made to the Applicant's plant investment for ratemaking purposes. These adjustments are identified below, summarized on Schedules B-2.2a and B-2.2b.

Old Legal Fees

During its plant review, Staff concluded that the support provided for legal fees incurred, from 1997 to 2002, did not show a direct correlation to the Company's water and wastewater system and should be removed from rate base. Staff's adjustments reduce plant in service by \$43,927 for water and \$43,927 for sewer as shown on Schedules B-2.2a and B-2.2b.

Land Lease

Staff finds that the Applicant's land lease for its water and sewer plant facilities qualifies as an operating lease, and therefore should not be capitalized. Staff's adjustments reduce plant in service by \$101,361 for water and \$10,774 for sewer as shown on Schedules B-2.2a and B-2.2b.

Structures and Improvements

During its investigation, Staff requested invoice support for a building with a concrete pad. Because the building was not included in the engineer's report that the Applicant submitted as part of the Application, and the Applicant could not provide additional support, Staff removed the building from rate base. Staff's adjustments reduce plant in service by \$7,988.62 for water and \$7,988.62 for sewer as shown on Schedules B-2.2a and B-2.2b.

Wells and Springs

During Staff's site inspection, Staff found that Well #2 had recently been replaced, and was not currently being used because the Ohio Environmental Protection Agency (OEPA) had not inspected it. Through discovery Staff received verification that the OEPA had approved Well #2. Therefore, Staff retired the old well #2 and included the new well #2 in rate base. Staff's adjustment increases plant in service by \$3,559.45 for water as shown on Schedule B-2.2a.

Depreciation

Depreciation is the process which distributes the original cost of depreciable assets, adjusted for net salvage, over the normal useful life of the property in a systematic and rational manner. Staff's investigation of depreciation is segregated into two areas: (1) Depreciation Reserve, and (2) Depreciation Accrual Rates and Depreciation Expense. Each of these areas is discussed in detail in the following sections.

Depreciation Reserve

The Applicant included a depreciation reserve by plant account in its filing for the year ended December 31, 2016. Staff determined that the Applicant's 50 year life used in its calculation of reserve is not proper. Therefore, Staff recalculated the depreciation reserve for regulatory purposes using Staff's recommended accrual rates discussed below, and to reflect Staff's adjusted plant in service as of December 31, 2016. Staff then adjusted the Applicant's depreciation reserve to the Staff's calculated depreciation reserve. Staff's adjustment is shown on Schedule B-3.1a and Schedule B-3.1b.

Because this is the Applicant's initial case, Staff recommends that the Applicant maintain a separate reserve ledger for regulatory accounting with Staff's calculated depreciation reserve by plant account at December 31, 2016 and going forward. Staff further recommends that when a retirement occurs that the Applicant record the retirement by debiting for cost of removal, crediting for salvage received, and debiting for the original cost of plant retired to the depreciation reserve.

Staff is of the opinion that the jurisdictional depreciation reserve, as adjusted by Staff on Schedule B-3a for water and Schedule B-3b for wastewater, is proper and adequate and recommends its use for purposes of this proceeding.

Depreciation Accrual Rates and Depreciation Expense

Because this is the Applicant's initial case, the Commission has never prescribed accrual rates for the Applicant. Staff is recommending new accrual rates consistent with the rates prescribed for other utilities with similar plant. Staff recommends that the Applicant be ordered to utilize these new accrual rates for regulatory book purposes. Staff's recommended accrual rates are shown on Schedules B-3.2a for water and B-3.2b for wastewater.

Staff's calculation of depreciation expense, based on the adjusted jurisdictional plant in service balances at date certain and the accrual rates discussed above, is shown on Schedule B-3.2a for water and B-3.2b for wastewater.

Construction Work In Progress

The Applicant did not request an allowance for construction work in progress in this case, and none is recommended by Staff, as indicated on Schedule B-4.

Working Capital

The Applicant did not request an allowance for working capital in this case, and none is recommended by Staff, as indicated on Schedule B-5.

Other Rate Base Items

As shown on Schedule B-6, there are no other rate base items.

Jurisdictional Allocations

The Applicant's service area is 100 percent jurisdictional and, therefore, directly assignable to this proceeding.

OPERATING INCOME

The Applicant's test year operating income used a combination of 2015 and 2016 revenues and expenses. Through interviews with both the Applicant's consultant and statutory agent, Staff attempted to determine true test year levels for revenues and expenses. Staff adjusted the Applicant's test year operating income as required to render it appropriate as a basis for setting rates.

Staff's pro forma operating income is Staff's adjusted test year operating income modified to reflect the proposed increase in revenue, uncollectible expenses, Ohio gross receipts tax, and federal income taxes.

Schedules C-1 and C-2 present Staff's determination of operating income. The calculations, methodologies, and rationale used to develop Staff's adjusted and pro forma operating income are detailed on Schedules A-1.1, C-1.1, C-3.1 through C-3.14, and C-4.

Pro forma Adjustments

Schedule C-1.1 shows the increase in operating revenues based on the Applicant's proposed rates and associated increases in revenue, uncollectible expenses, Ohio gross receipts tax, and federal income taxes. Schedules C-1.1a and C-1.1b provides the supporting calculation of the increase to operating revenues.

Current Adjustments

Base Revenue

Through its investigation, Staff found that only the Condominium Association had been billed for the test year. Therefore, Staff adjusted the test year revenue to reflect the inclusion of the unbilled revenue received from the facilities owned by Hazards Adventures Company and Island productions, LLC. Staff further adjusted the test year revenue to more accurately reflect the proportional usage of the Condominium Association and the other facilities. Staff's adjustment increases revenue by \$5,660 for water and \$5,094 for wastewater as shown on Schedule C-3.1.

Electric Utilities Expense

Staff adjusted the electric utilities expense to reflect costs that are appropriate for the Applicant's eight month operating season. Through its investigation, Staff determined that the Applicant included twelve months of expenses from multiple years in the electric utilities expense submitted in the Applicant's application. Staff's adjustment decreases expenses by \$9,263 for water and \$3,111 for wastewater as shown on Schedule C-3.2

Licensed Operator Expense

Staff adjusted the licensed operator expense to reflect the rate charged by the new licensed operator. Staff's adjustment increases expenses by \$1,522 for water and \$1,522 for wastewater as shown on Schedule C-3.3.

Daily Operator Expense

Staff adjusted the daily operator expense to reflect an amount that is commensurate with the number of days per week required for the performance of duties. Staff's adjustment reduces expenses by \$750 for water and \$750 for wastewater as shown on Schedule C-3.4.

Chemical Expense

Staff adjusted the chemical expense to remove costs associated with the treatment of water. During its investigation, Staff found that the costs of chemicals are included in the rate paid to the new licensed operator. Staff's adjustment reduces expenses by \$500 for water as shown on Schedule C-3.5.

Operation, Repair, and Maintenance Expense

Staff adjusted the operation, repair, and maintenance expense to reflect the removal of expenses associated with the refurbishment of Well #2. Through its investigation, Staff determined that the expenses are more appropriately classified as a capital expense rather than an operational expense. Staff's adjustment reduces expenses by \$10,941 for water as shown on Schedule C-3.6.

Administrative Expense

Staff adjusted the administrative expense to reflect a five-year amortization period. Staff's adjustment reduces expenses by \$9,010 for water and \$9,010 for wastewater as shown on Schedule C-3.7.

Property Insurance Expense

Staff adjusted the property insurance expense to more accurately reflect the portion attributable to the Applicant. Staff's adjustment reduces expenses by \$69 for water and \$916 for wastewater as shown on Schedule C-3.8.

Lease Expense

Staff adjusted the yearly lease expense to reflect an amount that is appropriate for ratemaking purposes. Staff calculated the expense such that the present value of the monthly lease payments over the duration of the lease plus the present value of the residual value of the land equaled the present value of the land leased. In this calculation, Staff accepted the Company's proposed discount rate of 10 percent but rejected the Applicant's inclusion of the Gross Revenue Conversion Factor in the calculation, because the Staff applies its own Gross Revenue Conversion Factor in calculating the revenue requirement. Staff's adjusted lease expense of \$20,212 was then allocated between water and sewer based on the leased acres for each as shown on Staff Work Paper WPC-3.9. Staff's adjustment reduces expenses by \$11,572 for water and \$1,217 for wastewater as shown on Schedule C-3.9.

Executive Expense

Staff adjusted the executive expense to more accurately reflect the time spent in performance of executive duties. Staff's adjustment reduces expenses by \$19,280 for water and \$19,280 for wastewater as shown on Schedule C-3.10.

Miscellaneous Operation & Maintenance Expenses

Staff removed from the test year various expenses that Staff determined to be inappropriate for ratemaking purposes. Staff's adjustment reduces expenses by \$10,595 for water and \$8,099 for wastewater as shown on Schedule C-3.11.

Depreciation Expense

Staff adjusted the depreciation expense to reflect Staff's recommended depreciable plant in service as of the date certain. This adjustment is presented on Schedule C-3.12, with an increase of \$1,748 for water and a \$5,566 increase for wastewater. Supporting calculations are shown on Schedule B-3.2a for water and Schedule B-3.2b for wastewater. Further discussion on depreciation can be found in the Rate Base section of this report.

Taxes Other Than Income

Staff adjusted taxes other than income taxes to reflect the proper base and the latest known tax rates. Schedule C-3.13 provides a summary of the calculated taxes and the resulting tax adjustments, with expenses being increased by \$1,027 for water and decreased by \$835 for wastewater. The supporting calculations are detailed on Schedules C-3.13a through C-3.13c.

Federal Income Taxes

Because the Applicant's test year operating income is negative, the Applicant has no federal income tax expense. Therefore, Schedule C-3.14 reflects the Staff's adjustment of \$0 for both water and wastewater. Schedule C-4 does calculate the Applicant's federal income taxes based on the proforma operating income for both water and wastewater. Staff recognizes that in the future, the Applicant's operating income will not be negative, and therefore will incur a federal income tax expense. The gross revenue conversion factor is designed to compensate the Company for federal income taxes on a going forward basis.

RATE OF RETURN

The Applicant provided financial statements for Staff's review. The 2016 Balance Sheet shows that the Applicant has zero outstanding debt and has chosen to capitalize its operations with 100% equity. Companies of this size have limited access to debt capital markets and are usually granted a generic rate of return for the calculation of its revenue requirements. Staff proposes to use a generic rate of return in this case.

Calculation of the Rate of Return

In determining a fair rate of return, three economic criteria were established in the landmark *Bluefield* and *Hope* cases². These cases establish that the rate of return should be sufficient to enable the regulated utility to: (1) maintain its credit standing and financial integrity; (2) attract new capital at reasonable costs; and (3) have a return commensurate with returns being earned on investments attended by corresponding risk.³ However, *Bluefield* also indicates that a utility is not entitled to earn a level of return generally associated with highly profitable enterprises or speculative ventures.⁴ These criteria simply acknowledge the basic economic realities that a regulated company must be able to generate sufficient revenues from the rates set by the regulatory agency to cover all costs (operating expenses and capital costs) incurred under prudent, honest, and efficient management. The regulatory commission must, therefore, give the investor the opportunity to receive fair compensation for its investment in a utility.

In an effort to provide transparency Staff has created a new process for establishing a generic rate of return for smaller companies. The new process will include the available published data on rate of returns granted by regulatory commissions across the nation in major rate case decisions for electric, gas and water companies.⁵ Staff has taken the averages of the published rate of returns granted for electric, gas and water companies in the United States for 2015 and 2016 and part of 2017, as shown in Table 1 below. In addition, Staff is recommending the inclusion of a size premium to be added to the rate of return averages to reflect generally higher costs of capital available to smaller companies. Staff is recommending the use of the low cap premium published by Ibbotson, which is 1.77 percent.⁶ This produces a mid point rate of return of 9.09 percent, which is the sum of 7.32 percent (average return) and 1.77 percent (low cap premium). A range of 8.60 percent to 9.60 percent appears fair and reasonable under prevailing interest rates and general economic conditions

² *Bluefield Waterworks & Improvement Co. v. Pub. Serv. Comm. of W.Va.*, 262 U.S. 679 (1923) and *Fed. Power Comm. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

³ *Bluefield* at 692-93; *Hope* at 603.

⁴ *Bluefield* at 693.

⁵ Major Rate Case Decisions, Regulatory Research Associates Standard & Poors' Global Market Intelligence (2017)

⁶ Ibbotson SBBI Classic Yearbook 109 (2015)

Table 1 - OBSERVATION OF THE AVERAGE OF AUTHORIZED ROR (%) OF THE MAJOR UTILITIES⁷

Year	Electric Utilities	Gas Utilities	Water Utilities	Average of 3 Utilities
	%	%	%	%
Jan-Dec 2015	7.38	7.34	7.63	
Jan-Dec 2016	7.28	7.08	7.55	
Jan-June 2017	7.02	7.34	7.27	
Average	7.23	7.25	7.49	7.32

⁷ Major Rate Case Decisions, Regulatory Research Associates Standard & Poors' Global Market Intelligence (2017)

RATES AND TARIFFS

General Statement

The Commission recently updated Ohio Adm. Code 4901:1-15 in Case No. 16-1568-WS-ORD and currently awaits final approval of those amendments. At the time these rules are finalized, the Applicant will need to make any necessary tariff changes to comply.

Tariff Analysis

Tariff Format

Ohio Adm. Code 4901:1-15 addresses filing an Application for Certificate of Public Convenience and Necessity. The filing must contain a multi-page document setting forth all of the applicant's proposed rates, charges, and rules and regulations (tariff). The Ohio Administrative Code (OAC) also prescribes the minimum contents of a company tariff.

The Applicant filed for the approval of two separate tariffs (Exhibit 5), one for water and one for sewer. However, Staff finds there should be one combined tariff for the Company. Furthermore, Staff identified discrepancies between the two proposed tariffs, as well as errors, some of which are described below. Staff recommends that the Commission direct the Applicant to work with Staff to develop an acceptable tariff.

Examples of formatting errors in the tariffs include the following:

1. The cover page of a tariff requires the TRF number of the company. The Applicant listed the incorrect number. The correct TRF number should be 89-7053-WS-TRF.
2. The Table of Contents and Subject Index sections contain incorrect section and sheet references.
3. The header and footers have errors including misnumbered pages.
4. The proposed service territory map is illegible. A legible copy needs to be provided.

Explanation of Terms

The Explanation of Terms for the two tariffs contain similar terms which need correcting. For example, the terms used for the sewer tariff reflect water definitions.

Terms that require correction or clarification include:

1. Customer: The OAC definition of customer should be used.
2. Company Service Line: This definition should be corrected to address both services into one tariff.
3. Distribution main: This term needs to be replaced with Collection Main throughout the tariff when referring to sewer service and the OAC definition should be used.
4. Owner: Staff finds there is little need for this definition and recommends its deletion.
5. Premises: Staff believes most of the definition has no applicability and recommends that this definition be restated to be applicable to the Applicant.
6. Sewer: This term is defined as a pipe for carrying sewage and other liquid waste. Staff finds other liquid waste to be vague and meaningless in this definition. Staff recommends that either "other liquid waste" be clearly defined or deleted.
7. Tap-in: This term needs to be defined using the OAC definition.

Seasonal Service

The Applicant is proposing to provide water and sewer service from April 1st through November 30th for the Condominium Association and April 1st through October 31st for all other customers. In response to a Staff data request, the Applicant states that the Condominium Association is not inhabited from December through March, while the other customers are non-operational and unoccupied from November through May⁸. Further, sewer service cannot be disconnected to any customer.

The data presented in the Applicant's Supporting Financial Documents (Allocation Data) shows that the Condominium Association receives service eight months out of the year; the RV sites, park models, and laundry receive service seven months out of the year; the primitive sites receive service six months out of the year and the restaurant receives service five months out of the year.

The Applicant informed Staff that it is impossible to begin service on April 1st due to the need for the ferry to be operational and the OEPA to approve system operations. Each year the ferry sets a new schedule with exact dates of service based upon weather conditions. Ferry service ends around Thanksgiving. With this information, Staff finds it difficult to recommend a specific date that service will begin or end. Staff, therefore, recommends that the tariff state that the time frames are approximate in nature and that the Applicant must provide service as soon as possible/reasonable.

Billings

In response to a Staff data request, the Company states that they intend to invoice customers that receive water and sewer services on the same bill, with payment due and payable within 15 days from the billing date.⁹ All bills would be mailed no later than the billing date. Staff finds combining the billing reduces costs and recommends approval of the Applicant's billing proposals.

While all customers are billed monthly, the Company is providing seasonal service and different customers receive different lengths of service. Staff recommends that customers be billed according to the following lengths of service, which Staff applied in designing rates; Island Productions should be billed seven months annually, Hazard Adventures should be billed five months annually, and the Condominium Association should be billed eight months annually.

Bill Form

Ohio Adm. Code 4901:1-15-23 prescribes the customer bill format. The Applicant's proposed format does not comply with this rule as it omits the following: address or P.O. Box where payment may be made, miscellaneous charges and credits, if any, and applicable rate schedule or a statement to the effect that the applicable rate schedule will be furnished on request. Staff recommends that the bill format be brought into conformity with the OAC and that the Applicant submit with the draft tariff a customer bill form that is in compliance with Ohio Adm. Code 4901:1-15-23.

Additional Forms and Policies

Staff requires the Applicant to submit the following documents for review prior to implementation: credit establishment policy, guarantor form, deposit receipt, collection policy, disconnection notice, door tag for disconnection, public notice of landlord disconnection, anti-fraud plan, anti-fraud notice,

⁸ See Staff DR-3.

⁹ See Staff DR-5A.

anti-fraud door-tag, anti-tampering plan, anti-tampering notice, anti-tampering door tag, and interruption notice for planned outage.

Application for Service Form

Staff found a discrepancy on an application for service form within the “Billing” section. The Applicant states that bills will be sent to the premises unless a different billing address is on the application form. Under “Applications for New Service and Deposits,” it states that the Applicant does not require a written application for new service. In response to a Staff data request, the Applicant stated that it is a small company and does not believe a formal, written application process to be necessary¹⁰. Staff finds that this tariff language discrepancy needs correction.

Business Hours

The tariffs contain conflicting times for normal business hours. The hours are shown as being 8 AM through 5 PM in some parts of the tariff and 8 AM through 4 PM in other parts. Staff recommends that the correct hours be consistent throughout the tariff.

In response to a Staff data request, the Applicant included its after hours/emergency telephone number and stated that upon issuance of a Certificate of Public Convenience and Necessity, the Applicant will publish the telephone number in the local telephone directory applicable to the local service territory under Island Waterworks, LLC, in accordance with Ohio Adm. Code 4901:1-15-12(C)¹¹. Staff recommends approval of this action and that the Applicant be ordered to provide proof of publication.

Company Photo Identification

The Company currently has no company photo identification. Ohio Adm. Code 4901:1-15-11(C) requires company photo identification. In response to a Staff data request, the Company states that it will obtain and provide a copy of company photo identification upon approval and issuance of its Certificate of Public Convenience and Necessity and tariffs.¹² Staff recommends approval of this action and recommends that the Applicant be ordered to provide proof of the identification.

Disconnection of Service

Staff finds that the Disconnection Procedures section does not comport with Ohio Adm. Code 4901:1-15-27. Staff recommends that this section be revised to conform to the OAC.

Medical Certification

The proposed tariff does not contain medical certification provisions as required by Ohio Adm. Code 4901:1-15-27(I). In response to a Staff data request, the Applicant states that it will comply with Ohio Adm. Code 4901:1-15-27(I) upon approval and issuance of its Certificate of Public Convenience and Necessity and tariffs¹³. Staff recommends that medical certification provisions be added to the tariff.

Special Contracts

Within the “Seasonal Service” section of the tariff, the Applicant states that a customer may request to receive service beyond the seasonal service period under a Special Contract arrangement mutually agreed upon by the customer and the Applicant. Special contracts are not lawful or binding until

¹⁰ See Staff DR-8.

¹¹ See Staff DR-18.

¹² See Staff DR-16.

¹³ See Staff DR-35.

approved by the Commission. Staff recommends the following language modification: “A customer may request to receive service beyond the seasonal service period under a Special Contract arrangement, which shall be mutually agreed upon by the customer and the Company and shall be approved by the Public Utilities Commission of Ohio prior to the Special Contract being valid or effective.”

Miscellaneous Charges

Late Payment Charges

The Applicant is proposing a late payment charge in the amount of 1.5 percent of the billed amount, which is activated by nonpayment of the bill 15 days after the due date. In response to a Staff data request, the Applicant justified the 1.5 percent late payment charge by identifying other PUCO regulated water and/or sewer companies having a 5 percent late payment charge.¹⁴ Staff acknowledges that other PUCO regulated water/sewer tariffs contain a 5 percent late payment fee; however, the total bills/rates from these companies are diminutive compared to the proposed bills/rates of the Applicant. A 1.5 percent late fee on a combined bill for the proposed tariffs would equate to approximately \$679, which Staff believes to be exorbitant. Staff recommends a late payment charge of 0.5 percent.

Dishonored Payments

The Applicant is not requesting a dishonored payment charge. With the Applicant’s customer base, Staff finds this reasonable and recommends no dishonored payment charge.

Reconnection Charges

The Applicant lists the entire proposed reconnection policy and charges in the “Rates and Charges section” of the tariff; however, only the rate needs to be addressed in this section. The reconnection policy should appear in the “General Regulations Governing Service” section of the tariff.

The Applicant proposed a \$50 normal business hours reconnection fee and proposes to charge Company incurred costs for reconnection after normal business hours. In response to a Staff data request, the Company states that it desires to eliminate the \$50 reconnection fee for normal business hours. There was no rationale given for the normal business hours change nor was there any justification provided for a \$50 reconnection charge.¹⁵

Reconnection charges are meant to recover the costs incurred from the parties causing the cost. Without justification of the cost, Staff cannot recommend a normal business hours charge. There was no rationale given as to why there should not be a charge during normal business hours and yet a charge for after business hours. Staff finds that the Applicant needs to provide data for the cost of a normal business hours disconnection, the rationale for why there should not be a normal business hours reconnection fee, and why there should be an out of pocket cost for after hours reconnection.

New Service Charge

The Applicant is proposing a New Service Charge. The Applicant’s tariff states that the charge will be the “actual reasonable cost of labor and material, including any meter that may be required and to subsequently remove the service, minus the salvage value of materials, if any.” The response to a Staff

¹⁴ See Staff DR-4.

¹⁵ See Staff DR-5A.

data request and the proposed tariff language leads Staff to find this charge to be related to either a main extension or tap-in and therefore recommends deletion.¹⁶

Notification of Customer Rights

Ohio Adm. Code 4901:1-15-16 requires all companies to provide a Notification of Customer Rights (NCR) to its customers and prescribes the contents of the NCR. The NCR is filed as an appendix to the tariff and the contents shall mirror the policies/procedures contained in the tariff. Staff finds that the Applicant needs to revise the NCR to come into compliance with the OAC and to become consistent with the tariff as prescribed herein.

Cost of Service Analysis

The Applicant submitted a version of a cost of service study, which Staff found to contain discrepancies and to be based on 2015 data rather than the test year, 2016. As discussed below under Revenue Distribution section of this report, Staff made revisions to the usage allocation resulting in differences in the cost of service study findings.

Revenue Analysis

Island Waterworks is a small water and sewer company. In numerous discussions with the Applicant prior to and after the filing of this case, the Applicant provided customer base information as the following: 1) Hazards Adventures Company, comprised of the restaurant/bar; 2) Island Productions, comprised of the RV sites, primitive sites, park models (mobile homes), pool, and laundry facilities; and 3) the St. Hazards Yacht Club Condominium Association. Staff is using this information in its recommendations. Staff finds the RV sites, primitive sites, park models (mobile homes), related facilities (pool and laundry/bath house), and the Condominium Association to be residential usage in nature. Staff finds the restaurant/bar to be more of a small commercial customer, but with residential usage patterns. For purposes of rate design, Staff finds that there are three customers and it is considering all customers to be residential in nature.

Revenue Distribution

Island Waterworks is an unmetered system. The data presented in the Applicant's Supporting Financial Documents (Allocation Data) filed in this case, detailed an estimate of the water usage for the facilities using the 2015 Water Usage Report¹⁷. Staff made revisions to the Applicant's estimates of water usage after receiving the Applicant's response to a Staff data request.¹⁸ The revisions made by Staff consist of the following: decreasing primitive sites from 125 to 40 gal/day, increasing the park models (mobile homes) from 125 to 300 gal/day, and adding pool usage of 5 gal/day. Primitive sites have minimal usage, and the park models are actually mobile homes. The Applicant made no obvious allocation for pool water usage.

¹⁶ See Staff DR 6

¹⁷ Ohio Environmental Protection Agency's Division of Drinking and Ground Waters Suggested Usage Guide, Pages 80-81 (obtained through DR-17).

¹⁸ See Staff DR-32.

Staff notes that the estimated usage by both the Applicant and the Staff are greater than actual usage. Staff finds this reasonable since the percentage and not actual usage is being used for allocation purposes.

The Applicant provided actual water usage figures for 2016 in response to a Staff data request.¹⁹ The actual 2016 usage was 625,900 gallons. Table 2 shows the usage data Staff utilized in making its revenue distribution recommendation. Table 3 shows Staff's recommended revenue distribution by customer.

Table 2 – Usage Allocation Data

Customer Facility	# of Units	Gal/Day	Total Usage Per Day (A)	Months in Operation (B)	Days per Month (C)	Total Gallons Consumed A * B * C = D	Facility Allocation % D ÷ Total
RV Sites	27	125	3,375	7	30	708,750	9.2
Primitive	20	40	800	6	30	144,000	1.9
Mobile Home	53	300	15,900	7	30	3,339,000	43.5
Restaurant	102	35	3,570	5	30	535,500	7.0
Pool	100	5	500	3	30	45,000	0.6
Laundry	2	400	800	7	30	168,000	2.2
Condo – 1 Br	2	250	500	8	30	120,000	1.6
Condo – 2 Br	35	300	10,500	8	30	2,520,000	32.9
Condo – 3 Br	1	350	350	8	30	84,000	1.1
Total						7,664,250	100.0

¹⁹ See Staff DR-34.

Table 3 – Revenue Allocation

Customer Category	Allocation %
Hazards Adventures	7.0
Island Productions	57.5
Condominium Association	35.5
Total	100.0

Rate Analysis

The Applicant provides both water and sewer service within an unmetered system and with seasonal usage. The Applicant is proposing flat rates, for which Staff recommends approval. Staff does not recommend a customer charge.

As previously stated, Staff finds that there are three customers and as such, is recommending rates specific to these customers. A single residential usage rate would not be possible due to the varying amounts of service provided to each customer and the lack of metering.

The Applicant's proposed revenue for water and sewer is \$180,150.97 and \$162,585.05, respectively. Using the Applicant's requested revenue and Staff's recommended revenue distribution, Staff recommends the following rate design and distribution of authorized revenues as shown in Tables 4 and 5 below, *using the Applicant's proposed revenue for illustrative purposes only.*

Table 4 – Company and Staff Proposed Water Rates

Customer	Applicant Proposed Monthly Rate \$	Percentage of Revenue	Staff Proposed Monthly Rate \$	Percentage of Revenue
Island Productions	9,699.43	37.7	14,798.11	57.5
Hazards Adventures	Included with Island Productions	-	2,522.11	7.0
Condo Association	14,031.87	62.3	7,994.20	35.5

Table 5 – Company and Staff Proposed Sewer Rates

Customer	Applicant Proposed Monthly Rate \$	Percentage of Revenue	Staff Proposed Monthly Rate \$	Percentage of Revenue
Island Productions	9,994.15	43.0	13,355.20	57.5
Hazards Adventures	Included with Island Productions	-	2,276.19	7.0
Condo Association	11,578.25	57.0	7,214.71	35.5

While all customers are billed monthly, the Company is providing seasonal service and different customers receive different lengths of service. Staff recommends that customers be billed according to the following lengths of service, which Staff will apply in designing rates; Island Productions should be billed seven months annually, Hazard Adventures should be billed five months annually, and the Condominium Association should be billed eight months annually.

Rates were calculated using 30 days per month with no provision for partial service. Since it is known that the Applicant may not be able to provide service for a full month at the beginning and ending of the season, Staff recommends that the customers still be billed for a full month of service regardless and that this be stated in the tariff.

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Overall Financial Summary
For the Twelve Months Ended December 31, 2016

SCHEDULE A-1

Line No.	Description	Water		Wastewater	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
1	Rate Base (a)	\$ 151,341	\$ 151,341	\$ 311,966	\$ 311,966
2					
3	Current Operating Income (b)	(31,277)	(31,277)	(28,148)	(28,148)
4					
5	Earned Rate of Return (2) / (1)	-20.67%	-20.67%	-9.02%	-9.02%
6					
7	Rate of Return Recommended (c)	7.60%	8.10%	7.60%	8.10%
8					
9	Required Operating Income (1) x (7)	11,502	12,259	23,709	25,269
10					
11	Operate Income Deficiency (9) - (3)	42,779	43,536	51,857	53,417
12					
13	Gross Revenue Conversion Factor (d)	1.09968	1.10204	1.13457	1.13751
14					
15	Revenue Deficiency (11) x (13)	47,043	47,978	58,836	60,762
16					
17	Revenue Increase Recommended	47,043	47,978	58,836	60,762
18					
19	Adjusted Operating Revenue (b)	25,503	25,503	22,952	22,952
20					
21	Revenue Requirements (17) + (20)	\$ 72,546	\$ 73,481	\$ 81,788	\$ 83,714
22					
23	Increase Over Current Revenue (17) / (19)	84.46%	88.13%	156.34%	164.74%

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

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Gross Revenue Conversion Factor

Schedule A-1.1

Line No.	Computed	Water		Wastewater	
		Lower	Upper	Lower	Upper
1	Current Operating Income	\$ (31,277)	\$ (31,277)	\$ (28,148)	\$ (28,148)
2	Operating Income Required	11502	12259	23709	25269
3	Operating Income Deficiency	42,779	43,536	51,857	53,417
4	Unweighted GRCF (a)	1.23514	1.23514	1.23514	1.23514
5	GRCF of Revenue Subject to Income Tax (Line 2/Line 3)*Line 4	0.332094	0.347796	0.564707	0.584286
6	GRCF of Revenue Only Subject to GRTax				
7	(Line 1 /Line 3)*1.04987 (b)	0.7675889	0.7542421	0.5698680	0.5532255
8	Weighted GRCF (Line 5 + Line 8)	1.0997	1.1020	1.1346	1.1375

(a) Staff's WPA-1.1a

(b) Conversion factor for only the Gross Receipts tax
(1÷.9525) = 1.04987

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Jurisdictional Rate Base Summary
As of Date Certain, December 31, 2016

SCHEDULE B-1

Line No.	Rate Base Component	Supporting Staff Schedule Reference	Water		Wastewater	
			Applicant	Staff	Applicant	Staff
1	Plant in Service	B-2	\$ 386,067	\$ 236,349	\$ 670,959	\$ 608,269
2						
3	Depreciation Reserve	B-3a & B-3b	(89,017)	(85,008)	(213,080)	(296,303)
4						
5	Net Plant in Service (1) + (3)		297,050	151,341	457,879	311,966
6						
7	Construction Work in Progress	B-4	0	0	0	0
8						
9	Working Capital Allowance	B-5	0	0	0	0
10						
11	Other Rate Base Items	B-6	0	0	0	0
12						
13	Rate Base (5) through (11)		\$ 297,050	\$ 151,341	\$ 457,879	\$ 311,966

**Island Waterworks, LLC
Case No. 17-201-WS-ACE
Plant in Service Summary
As of December 31, 2016**

SCHEDULE B-2

Line No.	Major Property Groupings	Water		Wastewater	
		Applicant Unadjusted	Staff Adjusted	Applicant Unadjusted	Staff Adjusted
		(a)	(b)	(a)	(c)
1	Intangible Plant	\$ 43,927	\$ -	\$ 43,927	\$ -
2					
3	Source of Supply Plant	139,947	34,156	-	-
4					
5	Land and Structures	-	-	18,763	-
6					
7	Water Treatment Plant	58,426	58,426	-	-
8					
9	Transmission & Distribution Plant	143,767	143,767	-	-
10					
11	Collection Plant	-	-	358,892	358,892
12					
13	Pumping Plant	-	-	23,139	23,139
14					
15	Treatment and Disposal Plant	-	-	226,238	226,238
16					
17	General Plant	-	-	-	-
18					
19	Total Water and Sewer Plant	\$ 386,067	\$ 236,349	\$ 670,959	\$ 608,269

- (a) Applicant's Application Rate Base Water and Sewer Plant "Installed Cost"
(b) Staff's Schedule B-2.1a
(c) Staff's Schedule B-2.1b

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Plant in Service by Accounts - Water
As of December 31, 2016

SCHEDULE B-2.1a

Line No.	Acct. No.	Description	Water		Staff's Adjusted Jurisdictional
			Applicant's Unadjusted	Adjustments	
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ 43,927	\$ (43,927)	\$ -
4					
5		Total Intangible Plant	43,927	(43,927)	-
6					
7		Source of Supply Plant:			
8					
9	310	Land & Land Rights	101,361	(101,361)	-
10	311	Structures & Improvements	7,989	(7,989)	-
11	314	Wells & Springs	14,763	3,559	18,322
12	316	Supply Mains			
13		3" Raw Water Main	5,193	-	5,193
14		4" Raw Water Main	10,641	-	10,641
15					
16		Total Source of Supply Plant	139,947	(105,791)	34,156
17					
18		Water Treatment Plant:			
19					
20	332	Water Treatment Equipment	58,426	-	58,426
21					
22		Total Water Treatment Plant	58,426	-	58,426
23					
24		Transmission & Distribution Plant:			
25					
26	343	Trans. and Distr. Mains			
27		2" Water Main	13,900	-	13,900
28		3" Water Main Condo Only	77,818	-	77,818
29	345	Services			
30		Hazards Adventures Co.	21,729	-	21,729
31		Condominium Association	30,320	-	30,320
32					
33		Total Transmission & Distribution Plant	143,767	-	143,767
34					
35		General Plant:			
36					
37	389	Land & Land Rights	-	-	-
38	390	Structures & Improvements	-	-	-
39	391	Office Furniture & Equipment	-	-	-
40	392	Transportation Equipment	-	-	-
41	393	Stores Equipment	-	-	-
42	394	Tools, Shop, & Garage Equipment	-	-	-
43	395	Laboratory Equipment	-	-	-
44	396	Power Operated Equipment	-	-	-
45	397	Communication Equipment	-	-	-
46	398	Miscellaneous Equipment	-	-	-
47					
48		Total General Plant	-	-	-
49					
50		Total Water	\$ 386,067	\$ (149,718)	\$ 236,349

- (a) Applicant's Application Rate Base Water Plant "Installed Cost"
(b) Staff's Schedule B-2.2a
(c) Columns (a) + (b)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Plant in Service by Accounts - Wastewater
As of December 31, 2016

SCHEDULE B-2.1b

Line No.	Acct. No.	Description	Wastewater		Staff's Adjusted Jurisdictional
			Applicant's Unadjusted	Adjustments	
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ 43,927	\$ (43,927)	\$ -
4					
5		Total Intangible Plant	43,927	(43,927)	-
6					
7		Land and Structures:			
8					
9	310	Land and Land Rights	10,774	(10,774)	-
10	311	Structures & Improvements	7,989	(7,989)	-
11					
12		Total Land and Structures	18,763	(18,763)	-
13					
14		Collection Plant:			
15					
16	352	Collection Sewers	83,778	-	83,778
17		6" Sanitary Sewer Condo's Only	3,686	-	3,686
18		6" Sanitary Sewer St. Hazard Only	13,108	-	13,108
19		8" Sanitary Sewer Condo's Only	32,682	-	32,682
20		8" Sanitary Sewer St. Hazard Only	71,425	-	71,425
21		Combined	65,954	-	65,954
22	352.1	3" Force Main	12,405	-	12,405
23		4" Force Main	18,406	-	18,406
24	353	Other Collection Plant Facilities	57,448	-	57,448
25	354	Services to Customers	-	-	-
26					
27		Total Collection Plant	358,892	-	358,892
28					
29		Pumping Plant:			
30					
31	363	Electric Pumping Equipment	23,139	-	23,139
32					
33		Total Pumping Plant	23,139	-	23,139
34					
35		Treatment and Disposal Equipment:			
36					
37	373	Treatment and Disposal Equipment	226,238	-	226,238
38					
39		Total Treatment and Disposal Plant	226,238	-	226,238
40					
41		General Plant:			
42					
43	389	Land and land rights	-	-	-
44	390	Structures & Improvements	-	-	-
45	391	Office Furniture and Equipment	-	-	-
46	392	Transportation Equipment	-	-	-
47	393	Stores Equipment	-	-	-
48	394	Tools, Shop, and Garage Equipment	-	-	-
49	395	Laboratory Equipment	-	-	-
50	396	Power Operated Equipment	-	-	-
51	397	Communication Equipment	-	-	-
52	398	Miscellaneous equipment	-	-	-
53					
54		Total General Plant	-	-	-
55					
56		Total Wastewater	\$ 670,959	\$ (62,690)	\$ 608,269

- (a) Applicant's Application Rate Base Sewer Plant "Installed Cost"
(b) Staff's Schedule B-2.2b
(c) Columns (a) + (b)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Staff's Adjustments to Plant In Service - Water
As of December 31, 2016

SCHEDULE B-2.2a

Line No.	Acct. No.	Description	Water	
			Total Adjustments	Description and Purpose of Adjustment
1	303	Misc. Intangible Plant	\$ (43,927)	Staff concluded the support provided for legal fees incurred, from 1997 to 2002, did not show a direct correlation to the Company's water and wastewater system.
2				
3	310	Land & Land Rights	(101,361)	Staff considers the lease provided by the applicant qualifies as an operating lease. Therefore, it should not be capitalized.
4				
5	311	Structures & Improvements	(7,989)	Staff removed the building with the concrete pad from rate base due to support not being provided.
6				
7	314	Wells & Springs	3,559	Staff found that Well #2 had recently been replaced, and should be included in rate base. The prior well was retired. The adjustment is the difference between the retirement and the cost of the new well.
8				
9		Total Water	\$ (149,718)	

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Staff's Adjustments to Plant In Service - Wastewater
As of December 31, 2016

SCHEDULE B-2.2b

Line No.	Acct. No.	Description	Wastewater	
			Total Adjustments	Description and Purpose of Adjustment
1	303	Misc. Intangible Plant	\$ (43,927)	Staff concluded that the support provided for legal fees incurred from 1997 to 2002, did not show a direct correlation to the Company's water and wastewater system.
2				
3	310	Land and Land Rights	(10,774)	Staff considers the lease provided by the applicant qualifies as an operating lease. Therefore, it should not be capitalized.
4				
5	311	Structures & Improvements	(7,989)	Staff removed the building with the concrete pad from rate base due to support not being provided.
6				
7		Total Wastewater	<u>\$ (62,690)</u>	

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Jurisdictional Depreciation Reserve - Water
As of December 31, 2016

SCHEDULE B-3a

Line No.	Acct. No.	Description	Water		
			Applicant's Unadjusted Depreciation Reserve	Adjustments	Staff's Adjusted
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ 15,314	\$ (15,314)	\$ -
4					
5		Total Intangible Plant	15,314	(15,314)	0
6					
7		Source of Supply Plant:			
8					
9	310	Land & Land Rights	0		
10	311	Structures & Improvements	2,876	(2,876)	0
11	314	Wells & Springs	5,315	1,488	6,803
12	316	Supply Mains			
13		3" Raw Water Main	1,869	(467)	1,402
14		4" Raw Water Main	3,831	(958)	2,873
15					
16		Total Source of Supply Plant	13,891	(2,813)	11,078
17					
18		Water Treatment Plant:			
19					
20	332	Water Treatment Equipment	21,033	3,155	24,188
21					
22		Total Water Treatment Plant	21,033	3,155	24,188
23					
24		Transmission & Distribution Plant:			
25					
26	343	Trans. and Distr. Mains			
27		2" Water Main	5,004	(475)	4,529
28		3" Water Main Condo Only	18,676	(1,774)	16,902
29	345	Services			
30		Hazards Adventures Co.	7,822	6,845	14,667
31		Condominium Association	7,277	6,367	13,644
32					
33		Total Transmission & Distribution Plant	38,779	10,963	49,742
34					
35		General Plant:			
36					
37	389	Land & Land Rights		0	0
38	390	Structures & Improvements		0	0
39	391	Office Furniture & Equipment		0	0
40	392	Transportation Equipment		0	0
41	393	Stores Equipment		0	0
42	394	Tools, Shop, & Garage Equipment		0	0
43	395	Laboratory Equipment		0	0
44	396	Power Operated Equipment		0	0
45	397	Communication Equipment		0	0
46	398	Miscellaneous Equipment		0	0
47					
48		Total General Plant		-	-
49					
50		Total Water	\$ 89,017	\$ (4,009)	\$ 85,008

- (a) Applicant's December 31, 2016 Depreciation Reserve
(b) Staff's Schedule B-3.1a
(c) Columns (a) + (b)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Depreciation Plant in Service - Wastewater
As of December 31, 2016

SCHEDULE B-3b

Line No.	Acct. No.	Description	Wastewater		
			Applicant's Unadjusted Depreciation Reserve	Adjustments	Staff's Adjusted
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ 15,314	\$ (15,314)	\$ -
4					
5		Total Intangible Plant	15,314	(15,314)	-
6					
7		Land and Structures:			
8					
9	310	Land and Land Rights	-		
10	311	Structures & Improvements	2,876	(2,876)	-
11					
12		Total Land and Structures	2,876	(2,876)	-
13					
14		Collection Plant:			
15					
16	352	Collection Sewers	20,107	4,423	24,530
17		6" Sanitary Sewer Condo's Only	885	194	1,079
18		6" Sanitary Sewer St. Hazard Only	4,719	1,038	5,757
19		8" Sanitary Sewer Condo's Only	7,844	1,725	9,569
20		8" Sanitary Sewer St. Hazard Only	25,713	5,657	31,370
21		Combined	23,743	5,224	28,967
22	352	3" Force Main	4,466	982	5,448
23		4" Force Main	6,626	1,458	8,084
24	353	Other Collection Plant Facilities	13,788	13,787	27,575
25	354	Services to Customers	-	-	-
26					
27		Total Collection Plant	107,891	34,488	142,379
28					
29		Pumping Plant:			
30					
31	363	Electric Pumping Equipment	5,553	14,800	20,353
32					
33		Total Pumping Plant	5,553	14,800	20,353
34					
35		Treatment and Disposal Plant:			
36					
37	373	Treatment and Disposal Equipment	81,446	52,125	133,571
38					
39		Total Treatment and Disposal Plant	81,446	52,125	133,571
40					
41		General Plant:			
42					
43	389	Land and land rights	-	-	-
44	390	Structures & Improvements	-	-	-
45	391	Office Furniture and Equipment	-	-	-
46	392	Transportation Equipment	-	-	-
47	393	Stores Equipment	-	-	-
48	394	Tools, Shop, and Garage Equipment	-	-	-
49	395	Laboratory Equipment	-	-	-
50	396	Power Operated Equipment	-	-	-
51	397	Communication Equipment	-	-	-
52	398	Miscellaneous equipment	-	-	-
53					
54		Total General Plant	-	-	-
55					
56		Total Wastewater	\$ 213,080	\$ 83,223	\$ 296,303

- (a) Applicant's December 31, 2016 Depreciation Reserve
(b) Staff's Schedule B-3.1b
(c) Columns (a) + (b)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Staff's Adjustments to Depreciation Reserve - Water
As of December 31, 2016

SCHEDULE B-3.1a

Line No.	Acct. No.	Description	Water		
			Applicant's Unadjusted Depreciation Reserve	Staff's Depreciation Reserve	Adjustments
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ 15,314	\$ -	\$ (15,314)
4					
5		Total Intangible Plant	15,314	-	(15,314)
6					
7		Source of Supply Plant:			
8					
9	310	Land & Land Rights	-		
10	311	Structures & Improvements	2,876	-	(2,876)
11	314	Wells & Springs	5,315	6,803	1,488
12	316	Supply Mains			-
13		3" Raw Water Main	1,869	1,402	(467)
14		4" Raw Water Main	3,831	2,873	(958)
15					
16		Total Source of Supply Plant	13,891	11,078	(2,813)
17					
18		Water Treatment Plant:			
19					
20	332	Water Treatment Equipment	21,033	24,188	3,155
21					
22		Total Water Treatment Plant	21,033	24,188	3,155
23					
24		Transmission & Distribution Plant:			
25					
26	343	Trans. and Distr. Mains			
27		2" Water Main	5,004	4,529	(475)
28		3" Water Main Condo Only	18,676	16,902	(1,774)
29	345	Services			
30		Hazards Adventures Co.	7,822	14,667	6,845
31		Condominium Association	7,277	13,644	6,367
32					
33		Total Transmission & Distribution Plant	38,779	49,742	10,963
34					
35		General Plant:			
36					
37	389	Land & Land Rights	-	-	-
38	390	Structures & Improvements	-	-	-
39	391	Office Furniture & Equipment	-	-	-
40	392	Transportation Equipment	-	-	-
41	393	Stores Equipment	-	-	-
42	394	Tools, Shop, & Garage Equipment	-	-	-
43	395	Laboratory Equipment	-	-	-
44	396	Power Operated Equipment	-	-	-
45	397	Communication Equipment	-	-	-
46	398	Miscellaneous Equipment	-	-	-
47					
48		Total General Plant	-	-	-
49					
50		Total Water A	\$ 89,017	85,008	(4,009)

(a) Applicant's December 31, 2016 Depreciation Reserve
(b) Staff's Workpaper WPB-3.1a
(c) Columns (b) - (a)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Staff's Adjustments to Depreciation Reserve - Wastewater
As of December 31, 2016

SCHEDULE B-3.1b

Line No.	Acct. No.	Description	Wastewater		
			Applicant's Unadjusted Depreciation Reserve	Staff's Depreciation Reserve	Adjustments
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ 15,314	\$ -	\$ (15,314)
4					
5		Total Intangible Plant	15,314	-	(15,314)
6					
7		Land and Structures:			
8					
9	310	Land and Land Rights	-		
10	311	Structures & Improvements	2,876	-	(2,876)
11					
12		Total Land and Structures	2,876	-	(2,876)
13					
14		Collection Plant:			
15					
16	352	Collection Sewers	20,107	24,530	4,423
17		6" Sanitary Sewer Condo's Only	885	1,079	194
18		6" Sanitary Sewer St. Hazard Only	4,719	5,757	1,038
19		8" Sanitary Sewer Condo's Only	7,844	9,569	1,725
20		8" Sanitary Sewer St. Hazard Only	25,713	31,370	5,657
21		Combined	23,743	28,967	5,224
22	352.1	3" Force Main	4,466	5,448	982
23		4" Force Main	6,626	8,084	1,458
24	353	Other Collection Plant Facilities	13,788	27,575	13,787
25	354	Services to Customers	-	-	0
26					
27		Total Collection Plant	107,891	142,379	34,488
28					
29		Pumping Plant:			
30					
31	363	Electric Pumping Equipment	5,553	20,353	14,800
32					
33		Total Pumping Plant	5,553	20,353	14,800
34					
35		Treatment and Disposal Plant:			
36					
37	373	Treatment and Disposal Equipment	81,446	133,571	52,125
38					
39		Total Treatment and Disposal Plant	81,446	133,571	52,125
40					
41		General Plant:			
42					
43	389	Land and land rights	-	-	-
44	390	Structures & Improvements	-	-	-
45	391	Office Furniture and Equipment	-	-	-
46	392	Transportation Equipment	-	-	-
47	393	Stores Equipment	-	-	-
48	394	Tools, Shop, and Garage Equipment	-	-	-
49	395	Laboratory Equipment	-	-	-
50	396	Power Operated Equipment	-	-	-
51	397	Communication Equipment	-	-	-
52	398	Miscellaneous equipment	-	-	-
53					
54		Total General Plant	-	-	-
55					
56		Total Wastewater	\$ 213,080	\$ 296,303	\$ 83,223

- (a) Applicant's December 31, 2016 Depreciation Reserve
(b) Staff's Workpaper WPB-3.1b
(c) Columns (b) - (a)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Depreciation Expense - Water
As of December 31, 2016

SCHEDULE B-3.2a

Line No.	Acct No.	Description	Water		
			Staff's Adjusted Plant (a)	Depreciation Accrual Rates (b)	Depreciation Expense (c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ -		\$ -
4					
5		Total Intangible Plant	-		-
6					
7		Source of Supply Plant:			
8					
9	310	Land & Land Rights	-		
10	311	Structures & Improvements	-	1.50%	
11	314	Wells & Springs	18,322	2.56%	469
12	316	Supply Mains			
13		3" Raw Water Main	5,193	1.50%	78
14		4" Raw Water Main	10,641	1.50%	160
15					
16		Total Source of Supply Plant	34,156		707
17					
18		Water Treatment Plant:			
19					
20	332	Water Treatment Equipment	58,426	2.30%	1,344
21					
22		Total Water Treatment Plant	58,426		1,344
23					
24		Transmission & Distribution Plant:			
25					
26	343	Trans. and Distr. Mains			
27		2" Water Main	13,900	1.81%	252
28		3" Water Main Condo Only	77,818	1.81%	1,409
29	345	Services			-
30		Hazards Adventures Co.	21,729	3.75%	815
31		Condominium Association	30,320	3.75%	1,137
32					
33		Total Transmission & Distribution Plant	143,767		3,612
34					
35		General Plant:			
36					
37	389	Land & Land Rights	-	-	-
38	390	Structures & Improvements	-	-	-
39	391	Office Furniture & Equipment	-	-	-
40	392	Transportation Equipment	-	-	-
41	393	Stores Equipment	-	-	-
42	394	Tools, Shop, & Garage Equipment	-	-	-
43	395	Laboratory Equipment	-	-	-
44	396	Power Operated Equipment	-	-	-
45	397	Communication Equipment	-	-	-
46	398	Miscellaneous Equipment	-	-	-
47					
48		Total General Plant	-	-	-
49					
50		Total Water A	\$ 236,349		\$ 5,662

(a) Staff's Schedule B2.2a
(b) Staff's Workpaper WPB-3.2
(c) Columns (a) * (b)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Depreciation Expense - Wastewater
As of December 31, 2016

SCHEDULE B-3.2b

Line No.	Acct No.	Description	Wastewater		
			Staff's Adjusted Plant	Depreciation Accrual Rates	Depreciation Expense
			(a)	(b)	(c)
1		Intangible Plant:			
2					
3	303	Misc. Intangible Plant	\$ -		\$ -
4					
5		Total Intangible Plant	-		
6					
7		Land and Structures:			
8					
9	310	Land and Land Rights	-		-
10	311	Structures & Improvements	-		-
11					
12		Total Land and Structures	-		-
13					
14		Collection Plant:			
15					
16	352	Collection Sewers	83,778	2.44%	2,044
17		6" Sanitary Sewer Condo's Only	3,686	2.44%	90
18		6" Sanitary Sewer St. Hazard Only	13,108	2.44%	320
19		8" Sanitary Sewer Condo's Only	32,682	2.44%	797
20		8" Sanitary Sewer St. Hazard Only	71,425	2.44%	1,743
21		Combined	65,954	2.44%	1,609
22	352	3" Force Main	12,405	2.44%	303
23		4" Force Main	18,406	2.44%	449
24	353	Other Collection Plant Facilities	57,448	4.00%	2,298
25	354	Services to Customers	-	-	-
26					
27		Total Collection Plant	358,892		9,653
28					
29		Pumping Plant:			
30					
31	363	Electric Pumping Equipment	23,139	7.33%	1,696
32					
33		Total Pumping Plant	23,139		1,696
34					
35		Treatment and Disposal Plant:			
36					
37	373	Treatment and Disposal Equipment	226,238	3.28%	7,421
38					
39		Total Treatment and Disposal Plant	226,238		7,421
40					
41		General Plant:			
42					
43	389	Land and land rights	-	-	-
44	390	Structures & Improvements	-	-	-
45	391	Office Furniture and Equipment	-	-	-
46	392	Transportation Equipment	-	-	-
47	393	Stores Equipment	-	-	-
48	394	Tools, Shop, and Garage Equipment	-	-	-
49	395	Laboratory Equipment	-	-	-
50	396	Power Operated Equipment	-	-	-
51	397	Communication Equipment	-	-	-
52	398	Miscellaneous equipment	-	-	-
53					
54		Total General Plant	-	-	-
55					
56		Total Wastewater	\$ 608,269		\$ 18,770

(a) Staff's Schedule B2.2b
(b) Staff's Workpaper WPB-3.2
(c) Columns (a) * (b)

**Island Waterworks, LLC
Case No. 17-201-WS-ACE
Construction Work In Progress Summary
As of December 31, 2016**

Schedule B-4

None

**Island Waterworks, LLC
Case No. 17-201-WS-ACE
Working Capital Allowance
As of December 31, 2016**

Schedule B-5

None

**Island Waterworks, LLC
Case No. 17-201-WS-ACE
Other Rate Base Items
As December 31, 2016**

Schedule B-6

None

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2016

SCHEDULE C-1

Description	Water			Wastewater		
	Adjusted Revenues & Expenses	Proforma Adjustments	Proforma Revenue & Expenses	Adjusted Revenues & Expenses	Proforma Adjustments	Proforma Revenue & Expenses
	(a)	(b)	(d)	(a)	(b)	(d)
<u>Operating Revenues</u>						
Water Sales	\$ 25,503	\$ 154,651	\$ 180,154	\$ 22,952	\$ 139,634	\$ 162,586
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	25,503	154,651	180,154	22,952	139,634	162,586
<u>Operating Expenses</u>						
Operation and Maintenance	48,412		48,412	31,486		31,486
Depreciation	5,662		5,662	18,770		18,770
Taxes, Other Than Income	2,706	7,346	10,052	844	6,632	7,476
Federal Income Taxes	-	28,501	28,501	0	24,143	24,143
Total Operating Expenses	56,780	35,847	92,627	51,100	30,775	81,875
Net Operating Income	(31,277)	118,804	87,527	(28,148)	108,859	80,711
Rate Base (e)	151,341		151,341	311,966		311,966
Rate of Return (f)	-20.67%		57.83%	-9.02%		25.87%

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Proforma Adjustments
For the Twelve Months Ended December 31, 2016

SCHEDULE C-1.1

Line No.	Description	Water	Wastewater
1	Proposed Revenue Increase (a)	\$ 154,651	\$ 139,634
2			
3	Late Payment Revenue (a)	-	-
4			
5	Total Proposed Revenue Increase (1) + (3)	\$ 154,651 0	139,634
6			
7	Uncollectible Accounts Expense (5) x 0%	\$ -	\$ -
8			
9	Ohio Gross Receipts Tax (b)	\$ 7,346	\$ 6,632
10			
11	Federal Income Tax (c)	\$ 28,501	\$ 24,143
(a)	Staff's Schedule C-1.1a and C-1.1b		
(b)	Staff's Schedule C-3.13a		
(c)	Staff's Schedule C-4		

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Operating Revenues at Current and Proposed Rates
For the Twelve Months Ended December 31, 2016

Schedule C-1.1a

Line No.	Base Revenue	Water						
		Monthly Customer Bills	Current Rate	Current Revenue	Proposed Rate	Proposed Revenue	Increase	Increase %
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Residential	8	\$ 1,133	\$ 9,064	\$ 14,031.87	\$ 112,255	\$ 103,191	1138%
2	Non-Residential	7	\$ 2,348	\$ 16,436	\$ 9,699.43	\$ 67,896	\$ 51,460	313%
3								
4	Total Revenue (1) + (2)			\$ 25,500		\$ 180,151	\$ 154,651	606%

- (a) Staff WPC-3.1
- (b) Staff WPC-3.1
- (c) Column (a) x (b)
- (d) Applicant's Filing
- (e) Column (a) x (d)
- (f) Column (e) - (c)
- (g) Column (f) / (c) x 100

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Operating Revenues at Current and Proposed Rates
For the Twelve Months Ended December 31, 2016

Schedule C-1.1b

		Wastewater						
Line No.	Base Revenue	Monthly Customer Bills	Current Rate	Current Revenue	Proposed Rate	Proposed Revenue	Increase	Increase %
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Residential	8	\$ 1,020	\$ 8,160	\$ 11,578.25	\$ 92,626	\$ 84,466	1035%
2	Non-Residential	7	\$ 2,113	\$ 14,791	\$ 9,994.15	\$ 69,959	\$ 55,168	373%
3								
4	Total Revenue (1) + (2)			\$ 22,951		\$ 162,585	\$ 139,634	608%

- (a) Staff WPC-3.1
- (b) Staff WPC-3.1
- (c) Column (a) x (b)
- (d) Applicant's Filing
- (e) Column (a) x (d)
- (f) Column (e) - (c)
- (g) Column (f) / (c) x 100

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Adjusted Test Year Operating Income
For the Twelve Month Ended December 31, 2016

SCHEDULE C-2

Line No.	Description	Water			Wastewater		
		Unadjusted Revenue & Expenses	Adjustments	Adjusted Revenues & Expenses	Unadjusted Revenue & Expenses	Adjustments	Adjusted Revenues & Expenses
		(a)	(b)	(c)	(a)	(b)	(c)
1	<u>Operating Revenues</u>						
2	Water Sales	\$ 19,843	\$ 5,660	\$ 25,503	\$ 17,858	\$ 5,094	\$ 22,952
3	Other Operating Revenues	0	0	0	0	0	0
4							
5	Total Operating Revenues	19,843	5,660	25,503	17,858	5,094	22,952
6							
7	<u>Operating Expenses</u>						
8	Operation & Maintenance	118,870	(70,458)	48,412	72,347	(40,861)	31,486
9	Depreciation & Amortization	3,914	1,748	5,662	13,204	5,566	18,770
10	Taxes, Other Than Income	1,679	1,027	2,706	1,679	(835)	844
11	Federal Income Taxes	-	-	-	-	-	-
12							
13	Total Operating Expenses	124,463	(67,683)	56,780	87,230	(36,130)	51,100
14							
15	Net Operating Income	\$ (104,620)	\$ 73,343	\$ (31,277)	\$ (69,372)	\$ 41,224	\$ (28,148)

- (a) Applicant's Test Year Revenue & Expenses
(b) Staff's Schedule C-3
(c) Column (a) + (b)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Jurisdictional Adjustments to Operating Income
For The Twelve Months Ended December 31, 2016

SCHEDULE C-3

Line No.	Schedule	Title of Adjustment	Water (a)	Wastewater (a)
1		Operating Revenue Adjustments		
2				
3	C-3.1	Annualized Revenue	5,660	5,094
4				
5		Total Revenue Adjustments	5,660 0	5,094
6				
7				
8		Operating Expenses Adjustments		
9				
10	C-3.2	Electric Utilities Expense	(9,263)	(3,111)
11	C-3.3	Licensed Operator	1,522	1,522
12	C-3.4	Daily Operator	(750)	(750)
13	C-3.5	Chemical Expense	(500)	0
14	C-3.6	Operation, Repair & Maintenance Expense	(10,941)	0
15	C-3.7	Administrative Expense	(9,010)	(9,010)
16	C-3.8	Property Insurance	(69)	(916)
17	C-3.9	Lease Expense	(11,572)	(1,217)
18	C-3.10	Executive Expense	(19,280)	(19,280)
19	C-3.11	Miscellaneous O & M Expense Adjustment	(10,595)	(8,099)
20				
21		Total Operation and Maintenance	(70,458)	(40,861)
22				
23	C-3.12	Depreciation & Amortization	1,748	5,566
24	C-3.13	Taxes Other Than Income	1,027	(835)
25	C-3.14	Federal Income Taxes	-	-
26				
27		Total Expense Adjustments	(67,683)	(36,130)

(a) Staff's Schedules C-3.1 Through C-3.14

Island Waterworks, LLC
Case No. 17-0201-WS-ACE
Annualized Revenue
For the Twelve Months Ended December 31, 2016

Schedule C-3.1

Line No.	Description	Water	Wastewater
1	Adjusted Sales Revenue (a)	\$ 25,503	\$ 22,952
2			
3	Test Year Sales Revenue (b)	<u>\$ 19,843</u>	<u>17,858</u>
4			
5	Adjustment (1) - (3)	<u>\$ 5,660</u>	<u>\$ 5,094</u>

- (a) Staff Workpaper WPC-3.1
(b) Staff Workpaper WPC-3.1

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Electric Utilities Expense
For the Twelve Months Ended December 31, 2016

Schedule C-3.2

Line No.	Description	Water	Wastewater
1	Adjusted Electric Utilities Expense (a)	\$ 2,788	\$ 3,948
2			
3	Test Year Electric Utilities Expense (b)	12,051	7,059
4			
5	Adjustment (1) - (3)	\$ (9,263)	\$ (3,111)

- (a) Staff's Work Paper WPC-3.2
(b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Licensed Operator Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.3

Line No.	Description	Water	Wastewater
1	Adjusted Expense (a)	\$ 13,550	\$ 13,550
2			
3	Test Year Expense (b)	<u>12,028</u>	<u>12,028</u>
4			
5	Adjustment (1) - (3)	<u>\$ 1,522</u>	<u>\$ 1,522</u>

- (a) Staff's Work Paper WPC-3.3
(b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Daily Operator Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.4

Line No.	Description	Water	Wastewater
1	Adjusted Expense (a)	\$ 1,050	\$ 1,050
2			
3	Test Year Expense (b)	<u>1,800</u>	<u>1,800</u>
4			
5	Adjustment (1) - (3)	<u>\$ (750)</u>	<u>\$ (750)</u>

- (a) Staff's Work Paper WPC-3.4
(b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Chemical Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.5

Line No.	Description	Water	Wastewater
1	Adjusted Expense (a)	\$ -	\$ -
2			
3	Test Year Expense (b)	500	-
4			
5	Adjustment (1) - (3)	<u>\$ (500)</u>	<u>\$ -</u>

- (a) Staff's Work Paper WPC-3.5
(b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Operation, Repair, & Maintenance Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.6

Line No.	Description	Water	Wastewater
1	Adjusted Expense (a)	\$ 685	\$ 550
2			
3	Test Year Expense (b)	11,626	550
4			
5	Adjustments (1) - (3)	\$ (10,941)	\$ -

- (a) Staff's Work Paper WPC-3.6
- (b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Administrative Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.7

Line No.	Description	Water	Wastewater
1	Total Estimated Administrative Expense (a)	\$ 15,006	\$ 15,006
2			
3	Amortization Period	<u>5</u>	<u>5</u>
4			
5	Annual Amortization of Administrative Expense (1) / (3)	3,001	3,001
6			
7	Test Year Expense (b)	<u>12,011</u>	<u>12,011</u>
8			
9	Adjustment (5) - (7)	<u><u>\$ (9,010)</u></u>	<u><u>\$ (9,010)</u></u>

- (a) Staff's Work Paper WPC-3.7
(b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Property Insurance Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.8

Line No.	Description	Water	Wastewater
1	Adjusted Property Insurance (a)	\$ 931	\$ 84
2			
3	Test Year Property Insurance (b)	<u>1,000</u>	<u>1,000</u>
4			
5	Adjustment (1) - (3)	<u>\$ (69)</u>	<u>\$ (916)</u>

- (a) Staff's Work Paper WPC-3.8
 (b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Lease Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.9

Line No.	Description	Water	Wastewater
1	Adjusted Lease Expense (a)	\$ 18,257	\$ 1,954
2			
3	Test Year Lease Expense (b)	29,829	3,171
4			
5	Adjustment (1) - (3)	<u>\$ (11,572)</u>	<u>\$ (1,217)</u>

- (a) Staff's Work Paper WPC-3.9
(a) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Executive Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.10

Line No.	Description	Water	Wastewater
1	Adjusted Executive Expense (a)	\$ 5,720	\$ 5,720
2			
3	Test Year Executive Expense (b)	<u>25,000</u>	<u>25,000</u>
4			
5	Adjustment (1) - (3)	<u>(19,280)</u>	<u>(19,280)</u>

- (a) Staff's Work Paper WPC-3.10
(b) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Miscellaneous Operation & Maintenance Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.11

Line No.	Description	Water	Wastewater
1	Licensed Operator - Condos 1 Extra Mo. (a)	\$ (785)	\$ (785)
2			
3	Licensed Operator - Condos at 3 Add. Mos. (a)	(2,005)	(2,005)
4			
5	Daily Operator - Condos 4 Mos. (a)	(900)	(900)
6			
7	Amortization of Old Legal Fees (a)	(879)	(879)
8			
9	Electric (Sewer Plant) - Additional 4 Mos. (a)	0	(3,106)
10			
11	Electric (Condo Pump Station) - Add. 4 Mos. (a)	0	(424)
12			
13	Electric (Water Plant) - Additional 4 Mos. (a)	(6,026)	0
14			
15	Adjustment	\$ (10,595)	\$ (8,099)

(a) Applicant's Revised Test Year Expense Sheet

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Depreciation and Amortization Expense Adjustment
For the Twelve Months Ended December 31, 2016

Schedule C-3.12

Line No.	Description	Water	Wastewater
1	Depreciation Expense - Annualized	\$ 5,662 (a)	\$ 18,770 (c)
2			
3	Depreciation Expense - Test Year	3,914 (b)	13,204 (b)
4			
5	Annualized Depreciation Adjustment (1) - (3)	\$ 1,748	\$ 5,566

- (a) Staff Schedule B-3.2a
- (b) Applicant's Revised Test Year Expense Sheet
- (c) Staff Schedule B-3.2b

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Summary of Taxes Other Than Income Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.13

Line No.	Description	Schedule Reference	Water	Wastewater
1	Ohio Gross Receipts Tax	C-3.13a	\$ 586	\$ 528
2				
3	Property Taxes	C-3.13b	2,020	216
4				
5	PUCO and OCC Assessments	C-3.13c	100	100
6				
7	Total Taxes Other Than Income Taxes (1) Thru (3)		2,706	844
8				
9	Test Year Taxes Other Than Income Taxes (a)		1,679	1,679
10				
11	Adjustment (7) - (9)		\$ 1,027	\$ (835)

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Ohio Gross Receipts Taxes
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.13a

Line No.	Description	Water	Wastewater
		Adjusted Operating Income	Adjusted Operating Income
1	Adjusted Operating Revenue (a)	\$ 25,503	\$ 22,952
2			
3	Less: \$25,000 Deduction (b)	13,158	11,842
4			
5	Net Taxable Receipts (1) - (3)	12,345	11,110
6			
7	Tax Rate	4.75%	4.75%
8			
9	Ohio Gross Receipts Tax (5) x (7)	\$ 586	\$ 528

(a) Staff's Schedule C-1

(b) Staff's - Operating Revenues Allocation Factor in WPC-3.1

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of Property Taxes
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.13b

Line No.	Description	Water	Wastewater
1	Total Taxable Value of Property (a)	\$ 101,679	\$ 10,885
2			
3	Percentage of Assessment Value to the Total Cost (b)	<u>62.8471%</u>	<u>62.8471%</u>
4			
5	Property Subject to Ohio Property Taxes (1) x (3)	63,902	6,841
6			
7	Tax Rate per \$1,000 (b)	<u>31.62</u>	<u>31.62</u>
8			
9	Ohio Property Tax (5) x (7)	<u>\$ 2,020</u>	<u>\$ 216</u>

(a) Staff Workpaper WPC-3.13b

(b) Staff DR 12

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Calculation of PUCO and OCC Assessments
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.13c

Line No.	Description	Water	Wastewater
1	PUCO Maintenance Assessment (a)	\$ 50	\$ 50
2			
3	OCC Fund Assessment (a)	50	50
4			
5	Total Assessment (1) + (3)	\$ 100	\$ 100

(a) Minimum Required Assessment

Island Waterworks, LLC
Case No. 17-201-WS-ACE
Federal Income Tax Expense Adjustment
For the Twelve Months Ended December 31, 2016

SCHEDULE C-3.14

Line No.	Description	Water	Wastewater
(1)	Adjusted Federal Income Taxes (a)	\$ -	\$ -
(2)	Test Year Federal Income Taxes (b)	<u>0</u>	<u>0</u>
(3)	Adjustment (1) - (2)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

- (a) Staff's Schedule C-4
(b) Applicant's Schedule C-2

Cobra Pipeline Company, LLC
Case No. 16-1725-PL-AIR
Calculation of Federal Income Taxes

Schedule C-4

Line No.	Description	Water		Wastewater	
		Adjusted Operating Income	Proforma Operating Income	Adjusted Operating Income	Proforma Operating Income
1	Operating Income Before FIT (a)	\$ (31,277)	\$ 116,028	\$ (28,148)	\$ 104,854
2					
3	<u>Reconciling Items:</u>				
4	Interest Charges (b)	-	-	-	-
5					
6	Tax Accelerated Depreciation (c)	-	-	-	-
7	Book Depreciation (d)	-	-	-	-
8					
9	Excess of Tax Over Book Depreciation (6) - (7)	-	-	-	-
10					
11	Total Reconciling Items (4) + (9)	-	-	-	-
12					
13	Federal Taxable Income (1) + (11)	(31,277)	116,028	(28,148)	104,854
14					
15	<u>Federal Income Taxes</u>				
16	First \$50,000 x 15%	-	7,500	-	7,500
17	Next \$25,000 x 25%	-	6,250	-	6,250
18	Next \$25,000 x 34%	-	8,500	-	8,500
19	Next \$235,000 x 39%	-	6,251	-	1,893
20	Next \$9,665,000 x 34%	-	-	-	-
21	Next \$5,000,000 x 35%	-	-	-	-
22	Next \$3,333,333 x 36%	-	-	-	-
23	Excess of Taxable Income Over \$18,333,333 x 35%	-	-	-	-
24					
25	Federal Income Taxes (16) Through (23)	-	28,501	-	24,143
26					
27	<u>Deferred Income Taxes:</u>				
28	Tax Accelerated Depreciation (d)	-	-	-	-
29	Tax Straight Line Depreciation (e)	-	-	-	-
30					
31	Excess of Tax Accelerated over Tax S/L Deprec. (28) - (29)	-	-	-	-
32	Deferred @0.34%	-	-	-	-
33					
34	Amortization of Prior Years ITC (d)	-	-	-	-
35					
36	Total Deferred Taxes (32) + (34)	-	-	-	-
37					
38	Total Federal Income Taxes (25) + (36)	\$ -	\$ 28,501	\$ -	\$ 24,143

- (a) Staff's Schedule C-1 and C-2
(b) Company's filed income statement
(c) Applicant's 2015 Federal Income Tax Return
(d) Staff's Schedule B-3.2
(e) Staff's Schedule C-2

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12/19/2017 3:32:38 PM

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Case No(s). 17-0201-WS-ACE

Summary: Comments electronically filed by Mr. Jonathan J Borer on behalf of Staff