

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua :  
Ohio, Inc. for Authority to Assess a : Case No. 19-0567-WW-SIC  
System Improvement Charge in the Lake :  
/ Masury / Prior American / Prior :  
Mohawk / Prior Tomahawk Properties :

---

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

---

**Dave Yost**  
Ohio Attorney General

**John Jones**  
Section Chief

**Robert Eubanks**  
Assistant Attorneys General  
30 East Broad Street, 16<sup>th</sup> Floor  
Columbus, OH 43215-3414  
614.644.8669 (telephone)  
614.644.8764 (fax)  
[robert.eubanks@ohioattorneygeneral.gov](mailto:robert.eubanks@ohioattorneygeneral.gov)

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

June 24, 2019

# TABLE OF CONTENTS

	PAGE(S)
I. BACKGROUND .....	1
II. SCOPE OF INVESTIGATION.....	3
III. STAFF FINDINGS .....	3
A. Infrastructure Plant .....	3
B. Depreciation .....	5
C. Property Taxes.....	5
D. Rate of Return .....	6
E. Revenue Distribution.....	6
F. Customer Notice.....	7
IV. STAFF RECOMMENDATION.....	7
PROOF OF SERVICE .....	9

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

The Matter of the Application of Aqua :  
Ohio, Inc. for Authority to Assess a : Case No. 19-0567-WW-SIC  
System Improvement Charge in the Lake :  
/ Masury / Prior American / Prior :  
Mohawk / Prior Tomahawk Properties :

---

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

---

**I. BACKGROUND**

Effective 2004, the Ohio General Assembly enacted Section 4909.172 of the Revised Code (R.C.), which authorized water and wastewater companies to recover certain costs associated with plant improvements through an infrastructure improvement surcharge, commonly known as a system improvement charge or SIC. At that time, such infrastructure consisted of service lines for hydrants, mains and valves installed as part of a replacement project for an existing facility. The SIC was not to exceed 3.00% of a Company's tariffed rates. The Commission adopted and approved the mechanism in Case No. 03-2266-WS-SIC<sup>1</sup>.

Effective 2013, the General Assembly amended R.C. 4909.172, increasing the maximum water SIC from 3.00% to 4.25% and expanding the capital improvements

---

<sup>1</sup> In the Matter of the Information Requirement for System Infrastructure Improvement Surcharge, Case No. 03-2266-WS-SIC, Entry (February 11, 2004).

appropriate for inclusion in calculating the SIC. The revised language added the following to eligible water capital improvements: replacement of existing plant including chemical feed systems, filters, pumps, motors, plant generators, meters, service lines, hydrants, mains, and valves; main extensions that eliminate dead ends to resolve documented water supply problems presenting significant health or safety issues to then existing customers; and main cleaning or relining.

On February 6, 2019 in Case No. 18-337-WW-SIC, the Commission approved the stipulation and established a 3.66% surcharge on all water services rendered to customers in the Lake Erie Division, Masury Division, and the Ohio service areas formerly served by Ohio American Water Company, Mohawk Utilities, Inc., and Tomahawk Utilities, Inc.

On March 4, 2019, Aqua Ohio, Inc. (Applicant or Aqua) filed an application in Case No. 19-567-WW-SIC to collect an infrastructure improvement surcharge of 3.767% from water customers in its Lake Erie Division, Masury Division, and service areas formerly served by Ohio American Water Company, Mohawk Utilities, Inc., and Tomahawk Utilities, Inc.

The Attorney Examiner's May 24, 2019 Entry established the deadline for filing comments by June 24, 2019.

## II. SCOPE OF INVESTIGATION

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

## III. STAFF FINDINGS

### A. Infrastructure Plant

The Applicant requests recovery of costs associated with the accounts shown below for the period of January 1, 2018 to December 31, 2018, in the amount of \$17,989,176. The accounts are shown below:

Account 323	Other Power Production Equipment	\$ 17,776
Account 325	Electric Pumping Equipment	\$ 290,429
Account 328	Other Pumping Equipment	\$ 154,629
Account 332	Water Treatment Equipment	\$ 2,248,565
Account 343	Mains	\$ 10,718,850
Account 345	Service Replacement	\$ 2,420,485
Account 346	Meters	\$ 960,555
Account 347	Meter Installations	\$ 547,339
Account 348	Hydrants	\$ 630,549
<b>Total</b>		<b>\$ 17,989,176</b>

To determine the reasonableness of the assets listed above, Staff evaluated projects from all the accounts and reviewed supporting documentation, including task orders,

continuing property records and selected invoices. In all, Staff examined \$12,539,687.39 (or approximately 70%) of all plant additions. Attachment A summarizes Staff recommended adjustments to the SIC calculation, which includes corrections for various expenses, retirements, and assets that are not SIC eligible identified by the Applicant during the course of the investigation. As such, Staff recommends the removal of \$188,427 of plant additions and \$24,824 of plant retirements.

According to Aqua's consultant, the Applicant took preventative measures to protect public health. Aqua expanded and upgraded the chemical feed systems at the Mentor and Ashtabula Water Treatment Plants (WTP). At the Ashtabula WTP, Aqua installed a new potassium permanganate feed system to control organics and taste and odor. Aqua also upgraded the capacities of the Powdered Activated Carbon (PAC) feed system. Where Aqua had limited use of the existing PAC system to primarily taste and odor events, the new PAC feed system has greater capacity for harmful algae blooms (HAB) control. The existing PAC system would be retained on standby as backup for lower dosing scenarios. At the Mentor WTP, Aqua also expanded the PAC feed system to protect against HABs and upgraded the potassium permanganate feed system to control zebra mussel accumulation and oxidize dissolved organic compounds.

Staff does not believe that the upgraded chemical feed systems and new potassium permanganate feed system are eligible for recovery under R.C. 4909.172(C)(1), which states that the surcharge may include the following capital improvements "replacement of existing plant including chemical feed systems." The potassium permanganate feed system at the Ashtabula WTP is new and, thus, not a replacement. Moreover, the new

primary purposes for these investments are to provide additional protection against HABs and related algal toxins – unlike the old systems – thus, disqualifying the new systems from being considered “replacements.” Staff finds that these items are not recoverable in a SIC case, and that the Applicant may request recovery in a base rate case application. Staff recommends the removal of \$1,660,586 in plant additions and the accompanying retirements of \$54,678 from Aqua’s SIC calculation. Aqua may request recovery in the next base rate case.

## **B. Depreciation**

Staff reviewed and analyzed the Applicant’s Schedule 4 (Provisions for Depreciation), Schedule 5 (Annualized Depreciation Associated with Additions), and Schedule 6 (Annualized Reduction in Depreciation for Retirements). Staff’s review included verifying that the Applicant is using the correct depreciation accrual rates prescribed in Case No. 16-0907-WW-AIR.

## **C. Property Taxes**

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

#### **D. Rate of Return**

The pre-tax rate of return is based on information contained in the Applicant's rate filing in Case No. 16-907-WW-AIR, and the rate of return authorized in the Commission's Opinion and Order dated March 22, 2017, approving the stipulated rate filing in that case. Staff finds that the Applicant's pre-tax rate of return is correct and consistent with the Commission's guidelines in O.A.C. 4901:1-15-35. The proposed surcharge will provide a fair and reasonable rate of return on the Applicant's valuation of costs associated with the system infrastructure improvements.

#### **E. Revenue Distribution**

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

Applicant has an existing System Improvement Charge of 3.66% that is applied to all bills issued after February 6, 2019. The surcharge is listed in Section 4, Sheet No. 2 of the Applicant's tariff. The surcharge proposed in this case would apply to all bills issued after the approval of the tariff and would be in addition to the charges provided for in the tariff for the customers in the Lake Erie Division, Masury Division, and the service areas formerly served by Ohio American Water Company, Mohawk Utilities, Inc., and Tomahawk Utilities, Inc.



The proposed surcharge would apply to all bills issued with the exception of the four contract customers; Whirlpool, Poet, Ashtabula County and the Village of Roaming Shores. The customers, Village of Roaming Shores and Ashtabula County, while included in this filing under “Sales for Resale,” have been removed as they are under contracts. Staff concurs that the surcharge should not apply to these contract customers.

Staff finds that the proposed surcharge does not exceed the 4.25% statutory limit, is distributed uniformly to all classes, and does not exceed the three surcharge maximum. If the authorized cost recovery revenue is less than the amount requested by the Applicant, the Applicant should adjust the revenue distribution so as to maintain a uniform distribution to all affected customer classes.

#### **F. Customer Notice**

The Applicant filed a proposed customer notice as Schedule 11 of the filing. Staff has reviewed the proposed customer notice and recommends that the customer notice be approved with updated information on finalized rates.

#### **IV. STAFF RECOMMENDATION**

Staff believes that, subject to the above recommendations, the Applicant’s March 4, 2019 filing is reasonable and recommends Commission approval of the proposed surcharge. Staff’s recommended adjustments, summarized in Attachment A, will reduce the Applicant’s annualized revenue requirement reflected on Schedule 1. These recommendations will impact the Applicant’s requested surcharge of 3.767% by reducing the percentage to approximately 3.372%. Staff also recommends the Applicant file updated

schedules to reflect the adjustments in Attachment A. Staff's proposed surcharge will recover only those costs specifically related to eligible infrastructure improvements and does not provide any additional base revenue to the Applicant.

Respectfully submitted,

**Dave Yost**  
Ohio Attorney General

**John Jones**  
Section Chief

*/s/Robert A. Eubanks*

**Robert Eubanks**  
Assistant Attorneys General  
30 East Broad Street, 16<sup>th</sup> Floor  
Columbus, OH 43215-3793  
614.644.8669 (telephone)  
614.644.8764 (fax)  
[robert.eubanks@ohioattorneygeneral.gov](mailto:robert.eubanks@ohioattorneygeneral.gov)

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

## PROOF OF SERVICE

I hereby certify that a true copy of the foregoing Comments submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served via electronic mail, upon the parties of record this 24<sup>th</sup> day of June, 2019.

/s/Robert A. Eubanks

**Robert Eubanks**

Assistant Attorney General

Parties of Record:

[Amy.botschner.obrien@occ.ohio.gov](mailto:Amy.botschner.obrien@occ.ohio.gov)

[Ambrosia.logsdon@occ.ohio.gov](mailto:Ambrosia.logsdon@occ.ohio.gov)

[Anna.sanyal@puco.ohio.gov](mailto:Anna.sanyal@puco.ohio.gov)

[Lauren.augostini@puco.ohio.gov](mailto:Lauren.augostini@puco.ohio.gov)

[glover@whitt-sturtevant.com](mailto:glover@whitt-sturtevant.com)

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

**Commission of Ohio Docketing Information System on**

**6/24/2019 3:17:00 PM**

**in**

**Case No(s). 19-0567-WW-SIC**

Summary: Comments electronically filed by Ms. Tonnetta Scott on behalf of PUC