

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua :  
Ohio, Inc. for Authority to Assess a : Case No. 20-532-WW-SIC  
System Improvement Charge in the Lake :  
Erie / Masury / Prior American / Prior :  
Mohawk / Prior Tomahawk Properties :

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

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**Dave Yost**  
Ohio Attorney General

**John Jones**  
Section Chief

**Steven Darnell**  
**Robert Eubanks**  
Assistant Attorneys General  
30 East Broad Street, 16<sup>th</sup> Floor  
Columbus, OH 43215-3414  
614.644.8588 (telephone)  
614.644.8764 (fax)  
[steven.darnell@ohioattorneygeneral.gov](mailto:steven.darnell@ohioattorneygeneral.gov)  
[robert.eubanks@ohioattorneygeneral.gov](mailto:robert.eubanks@ohioattorneygeneral.gov)

**Counsels for the Staff of the  
Public Utilities Commission of Ohio**

July 2, 2020

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System Improvement Charge :

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**I. BACKGROUND**

Effective 2003, the Ohio General Assembly enacted R. C. 4909.172, 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 for a waterworks company from 3.00% to 4.25% and expanding the capital improvements appropriate for inclusion in calculating the SIC. The revised

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

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, 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. *In re. Application of Aqua Ohio, Inc. for Authority to Assess a System Improvement Charge*, Case No. 18-337-WW-SIC (*Aqua SIC I*), Finding and Order (Feb. 6, 2019) at 5.

On October 23, 2019, the Commission approved the stipulation and established a 3.733% 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. *In re. Application of Aqua Ohio, Inc. for Authority to Assess a System Improvement Charge*, Case No. 19-567-WW-SIC (*Aqua SIC II*), Finding and Order (Oct. 23, 2019) at 5.

On March 5, 2020, Aqua Ohio, Inc. (Applicant or Aqua) filed an application to collect an infrastructure improvement surcharge of 3.503% from water customers in its Lake Erie Division, Masury Division and the Ohio service areas formerly served by Ohio American Water Company, Mohawk Utilities, Inc. and Tomahawk Utilities, Inc. *In re.*

*Application of Aqua Ohio, Inc. for Authority to Assess a System Improvement Charge*, Case No. 20-532-WW-SIC (*Aqua SIC III*), Application (Mar. 5, 2020) at 1-3.

On April 22, the Attorney Examiner established the deadline for filing comments by July 3, 2020. *Aqua SIC III*, Entry (Apr. 22, 2020) at ¶ 13.

## **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, 2019 to December 31, 2019, in the amount of \$16,841,618. The accounts are shown below:

<b>Account Number</b>	<b>Account Description</b>	<b>Amount</b>
Account 323	Other Power Production Equipment	\$11,190
Account 325	Electric Pumping Equipment	\$70,013
Account 328	Other Pumping Equipment	\$227,305
Account 332	Water Treatment Equipment	\$415,855
Account 343	Mains	\$11,352,855
Account 345	Service Replacement	\$2,940,743
Account 346	Meters	\$335,161
Account 347	Meter Installations	\$552,335
Account 348	Hydrants	\$936,161
<b>Total</b>		<b>\$16,841,618</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 \$7,177,090.61 (or approximately 43%) 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 \$25,087 of plant additions and \$10,000 of plant retirements.

## **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 Ohio Adm.Code 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**

ORC 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 two existing System Improvement Charges of 3.66% and 3.733% that are applied to all bills issued after February 6, 2019 and October 23, 2019, respectively. The surcharges are 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 four contract customers; Whirlpool, Poet, Ashtabula County and the village of Roaming Shores. The customers of the 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 5, 2020, 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 3.503% by reducing the percentage to approximately 3.499%. 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/ Steven T. Darnell*

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**Steven T. Darnell**

**Robert Eubanks**

Assistant Attorneys General  
30 East Broad Street, 16<sup>th</sup> Floor  
Columbus, OH 43215-3793  
614.644.8588 (telephone)  
614.644.8764 (fax)

[steven.darnell@ohioattorneygeneral.gov](mailto:steven.darnell@ohioattorneygeneral.gov)

[robert.eubanks@ohioattorneygeneral.gov](mailto:robert.eubanks@ohioattorneygeneral.gov)

**Counsels 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 2<sup>nd</sup> day of July, 2020.

*/s/Steven T. Darnell*

**Steven T. Darnell**

Assistant Attorney General

Parties of Record:

**Mark A. Whitt**

**Christopher T. Kennedy**

**Lucas A. Fykes**

Whitt Sturtevant LLP

88 E. Broad St., Ste. 1590

Columbus, OH 43215

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

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

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

*On behalf of Aqua Ohio, Inc.*

**Amy Botschner O'Brien**

**Ambrosia E. Logsdon**

Office of the Ohio Consumers' Counsel

65 E. State St., Floor 7

Columbus, OH 43215

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

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

*On behalf of the Ohio Consumer's Counsel*

AQUA OHIO INC.										
CASE NO. 20-0532-WW-SIC										
ATTACHMENT A										
LINE NO.	PROJECT AUTHORIZATION NO.	ACCOUNT NO.	COMPANY PLANT ADDITION	STAFF ADJUSTMENTS	ADJUSTED COMPANY PLANT ADDITION	COMPANY RETIREMENT	STAFF ADJUSTMENTS	ADJUSTED COMPANY RETIREMENTS	COMPANY PROJECT DESCRIPTION	COMPANY RETIREMENT DESCRIPTION
1	23015002655	343	480,723.52	\$ (150.00)	\$ 480,573.52	(6,635.91)	\$ -	\$ (6,635.91)	Replace 3378' of 6" cast iron main with 8" ductile iron.	Retire pipe for replacement
2	23015002657	343	272,947.21	\$ (150.00)	\$ 272,797.21	(7,782.65)	\$ -	\$ (7,782.65)	Replace 1550' of 8" cast iron main with 12" ductile iron.	Retire CI pipe for replacement
3	23015002672	343	347,833.54	\$ (150.00)	\$ 347,683.54	(15,625.60)	\$ -	\$ (15,625.60)	Replace 2200 of 4" AC/DI with 8" PVC	Retire pipe for replacement
4	23015002655	345	124,633.99	\$ (150.00)	\$ 124,483.99	(1,472.38)	\$ -	\$ (1,472.38)	Replace 3378' of 6" cast iron main with 8" ductile iron.	Retire services for replacement
5	23046002693	343	395,514.76	\$ (150.00)	\$ 395,364.76	(2,340.53)	\$ -	\$ (2,340.53)	Replace 1859' of 2"/6" main with 2297 of 8" ductile.	Retire pipe for replacement
6	23046002690	343	94,292.88	\$ (100.40)	\$ 94,192.48	(283.50)	\$ -	\$ (283.50)	Replece 225' of 2" galvanized with 8" ductile iron and tie in dead end mains.	Retire pipe for replacement
7	23046404762	332	24,236.16	\$ (24,236.16)	\$ -	\$ (10,000.00)	\$ 10,000.00	\$ -	One of the two pressure tanks in the WTP is water logged and has to be replaced. We will replace it with a similar steel pressure tank	Retire pressure tank for replacement
			1,740,182.06	(25,086.56)	1,715,095.50	(44,140.57)	10,000.00	(34,140.57)		

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

**Commission of Ohio Docketing Information System on**

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**Case No(s). 20-0532-WW-SIC**

Summary: Comments Submitted on Behalf of The Staff of The Public Utilities Commission of Ohio electronically filed by Mrs. Kimberly M Naeder on behalf of PUCO