

THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF
CARROLL TOWNSHIP TREATMENT
SERVICES, INC. FOR AN INCREASE IN
RATES AND CHARGES.

CASE NO. 20-1585-ST-AIR

OPINION AND ORDER

Entered in the Journal on May 5, 2021

I. SUMMARY

{¶ 1} The Commission grants the application of Carroll Township Treatment Services, Inc. for an increase in rates and charges, allowing a return of 8.80 percent for sewage disposal system services rendered in Carroll Township.

II. FACTS AND PROCEDURAL BACKGROUND

{¶ 2} Carroll Township Treatment Services, Inc. (CTTS or Applicant) is a sewage disposal system company as defined by R.C. 4905.03(M) and a public utility as defined by R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission pursuant to R.C. 4905.04, 4905.05, and 4905.06.

{¶ 3} On October 12, 2020, Applicant filed an abbreviated application to increase its rates for sewage disposal system service, pursuant to R.C. 4909.18. CTTS requested a rate increase that would generate additional base revenue of approximately \$100,992 or 77.99 percent over current revenues for its service area. By Entry issued November 18, 2020, the Commission accepted the application for filing as of October 12, 2020, and ordered CTTS to publish notice of the application, pursuant to R.C. 4909.19. There were no motions to intervene filed in the case.

{¶ 4} Pursuant to R.C. 4909.19, Staff conducted an investigation of the facts, exhibits, and matters relating to CTTS's application, and filed its report (Staff Report) on January 13, 2021. CTTS filed a notice of acceptance of the Staff Report on January 20, 2021.

{¶ 5} By Entry dated January 25, 2021, the attorney examiner scheduled an evidentiary hearing on April 14, 2021. As part of the same Entry, the attorney examiner established a procedural schedule, which required that any (1) objections to the Staff Report, and (2) motions to intervene in the case, were due by February 12, 2021.

{¶ 6} No person filed an objection to the Staff Report or motion to intervene in this case.

{¶ 7} By Entry dated February 25, 2021, the attorney examiner found that an evidentiary hearing is not necessary to determine this matter because (1) CTTS filed a notice of acceptance of the Staff Report, (2) no party has moved to intervene, and (3) no objections to the Staff Report have been filed. *See* Ohio Adm.Code Chapter 4901-7, Appendix A. Accordingly, the evidentiary hearing scheduled on April 14, 2021 was cancelled. As part of the same Entry, the matter was scheduled for a local public hearing on March 24, 2021, as required by R.C. 4903.083.

{¶ 8} On March 24, 2021, the local public hearing occurred as scheduled. No witnesses attended the hearing to provide testimony in the case.

III. DISCUSSION

A. *Summary of the Staff Rate Analysis*

{¶ 9} Per the terms of the Staff Report, CTTS should receive a net base rate increase of between \$26,145 and \$28,616, in order to meet reasonable revenue requirement amounts of between \$155,635-158,106. The proposed increase would result in a rate of return of between 8.80-9.80 percent as a reasonable rate-of-return. (Sched. A-1.)

{¶ 10} The following information presents the value of CTTS's property used and useful in the rendition of sewage disposal system services as of the August 31, 2020 date certain, as determined by Staff (Sched. B-1):

Plant in Service	\$878,240
Depreciation Reserve	\$503,279
Net Plant in Service	\$374,960
Construction Work in Progress	\$0
Working Capital Allowance	\$15,615
Other Rate Base Items	(\$167,117) ¹
Rate Base	\$223,458

{¶ 11} The following information reflects CTTS's adjusted operating income for the 12 months ended August 31, 2020, as adjusted by Staff (Sched. C-2):

<u>Operating Revenue</u>	
Total Operating Revenues	\$129,490
<u>Operating Expenses</u>	
Operation and Maintenance	\$124,923
Depreciation	\$8,997
Federal Income Taxes	\$(443)
Total Operating Expenses	\$133,477
Net Operating Income	\$(3,987)

¹ This amount is comprised of Staff adjustments relating to deferred income taxes and the contribution in aid of construction (CIAC).

{¶ 12} The following information reflects CTTS's range of recommended revenue increase as calculated by Staff (Sched. A-1):

Adjusted Operating Income	(\$3,987)
Recommended Rate of Return	8.80-9.80 percent
Required Operating Income	\$19,664-21,899
Income Deficiency	\$23,651-25,886
Gross Revenue Conversion Factor	1.105464
Revenue Increase Recommended	\$26,145-28,616

B. Summary of the Staff Tariff Analysis

{¶ 13} Staff recommended changes to Applicant's (1) tariff language, (2) tariff and bill formats, and (3) rights and responsibilities brochure. In addition, Staff recommended that Applicant publish a 24-hour emergency telephone number in the local directory, as required by Ohio Adm.Code 4901:1-15-12(C). Staff further recommended the continuation of the monthly credit to customers resulting from prior overcharges through at least August 2021, as ordered by the Commission in Case No. 18-889-ST-AIR, Opinion and Order at 4 (Apr. 8, 2020).

C. Summary of Staff Customer Service and Facility Operations Analysis

{¶ 14} In addition to the customer service changes noted in the tariff analysis, Staff identified a billing issue involving the duration of time provided to a customer to remedy any undercharges. Applicant agreed with Staff's recommendation that the time for repayment of undercharges should correlate with the length of time during which undercharges are incurred.

{¶ 15} Staff's review of facility operations documented that there were no customer service contacts to the Commission during the year ending August 31, 2020. Further, during its water audit on August 21, 2020, Staff did not observe any violations of Ohio's environmental rules and regulations. Though Staff did note that aspects of the plant's

blowers and control panels were approaching the end of their useful life, which could lead to catastrophic failure and the possible noncompliance with Ohio Environmental Protection Agency water quality treatment standards.

D. *Summary of Staff Management and Operations Analysis*

{¶ 16} Staff investigated Applicant's compliance with the management and operations recommendations made in Applicant's most recent rate case. *In the Matter of the Application of Carroll Township Treatment Services, LLC for an Increase in Rates for Sewage Disposal System Service*, Case No. 18-889-ST-AIR, Opinion and Order at 4 (Apr. 8, 2020). Overall, Staff noted that Applicant made some policies, procedures, and accounting changes in response to the findings from the prior rate case. Still, there were several areas where Staff continued to note deficiencies, including (1) failing to make all recommended policies, procedures, and accounting changes, (2) failing to document when changes were made, (3) incorrectly accounting for certain operating, maintenance, and rate case expenses, (4) failing to implement recommendations necessary to ensure that ratepayers are charged only for sewer services, (5) failing to properly record deposits and invoice payments, (6) failing to include the annual CIAC amortization in its most recent income statement, and (7) failing to properly account for deferred taxes. Staff recommends that Applicant make the remaining policies, procedures, and accounting changes that it outlines, and that Applicant be required to implement and provide proof of compliance with these remaining recommendations within three months of the Commission's Opinion and Order in this case. (Staff Report 17-19.)

E. *Consideration of Application and Staff Report*

{¶ 17} Under its present rates, CTTS is experiencing a net operating loss of \$3,987, which yields a rate-of-return of negative 1.78 percent. Accordingly, the Commission finds that current rates do not provide a reasonable rate-of-return. Instead, we find that a reasonable rate-of-return is 8.80 percent. In order to achieve this rate-of-return, CTTS's operating income should be set at \$19,664, which, when accounting for gross revenue

factors, is an increase of \$26,145 from current revenues. We find that this increase benefits ratepayers by incorporating revenue and balance sheet adjustments recommended by Staff. Additionally, we note that the increase is a reduction from the \$100,992 revenue increase requested by CTTS in its application. (Sched. C-1.)

{¶ 18} We find that the adjusted rate base and operating income calculations, as recommended by Staff, are reasonable and proper, and we adopt these valuations for the purposes of this proceeding.

{¶ 19} We also find that tariffs in accord with both the Staff Report and this Opinion and Order are reasonable and proper. Consequently, CTTS shall file final tariffs reflecting these findings. (Staff Report at 11-13.) The new tariffs will become effective on a bills rendered basis on or after May 31, 2021.

{¶ 20} We also find that the management and operations recommendations in accord with both the Staff Report and this Opinion and Order are reasonable and proper, and we adopt these recommendations. We note that Applicant failed to comply with all of Staff's recommendations in its most recent rate case. While we accept that Applicant acted in good faith in adopting many of Staff's prior recommendations, we instruct Applicant to fully comply with the Staff recommendations as outlined in the Staff Report and this Opinion and Order. Such compliance specifically includes, and is not limited to (1) implementing the policies, procedures, and accounting adjustments recommended by Staff, and (2) providing proof of compliance, as required by Staff, of the items outlined in the Staff Report within three months of this Opinion and Order. Further, we note that, in spite of the need for Applicant to implement the remaining outstanding Staff recommendations, the Commission has complete, reliable information necessary to adjudicate the issues pending in this case.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

{¶ 21} On October 12, 2020, Applicant filed an abbreviated application to increase its rates for sewage disposal service, pursuant to R.C. 4909.18. In its application, CTTS requested a test year of September 1, 2019 to August 31, 2020, and a date certain of August 31, 2020. By Commission Entry issued November 18, 2020, we accepted the application for filing as of October 12, 2020, the test year and date certain were approved, and certain waivers from the standard filing requirements contained within R.C. 4909.18(A) through (E) were granted.

{¶ 22} On January 13, 2021, Staff filed its written report of investigation with the Commission.

{¶ 23} By Entry dated January 25, 2021, persons wishing to file objections to the Staff Report or intervene in the case were directed to file appropriate pleadings by February 12, 2021. The Entry also scheduled an evidentiary hearing to commence on April 14, 2021.

{¶ 24} There were no motions to intervene filed in the case, nor any objections to the Staff Report. Further, CTTS filed a notice of acceptance of the Staff Report on January 20, 2021.

{¶ 25} By Entry dated February 25, 2021, the evidentiary hearing in this matter was cancelled, and the local public hearing was scheduled for March 24, 2021. Notice of the local public hearing was published in accordance with R.C. 4903.083, and proof of such publication was filed on February 25, 2021. The local public hearing occurred as scheduled, and no one appeared to offer testimony in the case.

{¶ 26} The value of CTTS's property used and useful for the rendition of sewage treatment services to customers affected by this application, determined in accordance with R.C. 4909.15, is not less than \$223,458.

{¶ 27} The current net annual compensation of a net loss of \$3,987 represents a rate-of-return of negative 1.78 percent on the jurisdictional rate base of \$223,458.

{¶ 28} A rate-of-return of negative 1.78 percent is insufficient to provide CTTS with reasonable compensation for the sewage treatment services rendered to its customers.

{¶ 29} A rate-of-return of not more than 8.80 percent is fair and reasonable under the circumstances of this case and is sufficient to provide CTTS just compensation and return on its property used and useful in the provision of sewage treatment services to its customers.

{¶ 30} An authorized revenue increase of \$23,651 will result in a return of approximately \$19,664 which, when applied to the rate base of \$223,458, yields a rate-of-return of approximately 8.80 percent.

{¶ 31} The allowable gross annual revenue to which CTTS is entitled for purposes of this proceeding is \$155,635.

{¶ 32} CTTS's application was filed, and this Commission has jurisdiction of the application, pursuant to R.C. 4909.17, 4909.18, and 4909.19, and the application complies with these statutes.

{¶ 33} A Staff investigation was conducted and a report duly filed and mailed, and a public hearing held herein, the written notice of which complied with the requirements of R.C. 4909.19 and 4903.083.

{¶ 34} The Staff Report findings relating to the rate base, reasonable rate-of-return, pro forma operating income statement, tariff analysis, and management and operations review are reasonable and should be adopted in their entirety.

{¶ 35} CTTS is authorized to withdraw its current tariffs and should file final revised tariffs.

V. ORDER

{¶ 36} It is, therefore,

{¶ 37} ORDERED, That the application of CTTS for authority to increase its rates and charges for sewage treatment services be granted to the extent provided in this Opinion and Order. It is, further,

{¶ 38} ORDERED, That CTTS be authorized to file, in final form, complete copies of its revised tariffs in this case docket, consistent with the determinations adopted in this Opinion and Order. It is, further,

{¶ 39} ORDERED, That the final revised tariffs shall become effective on a bills rendered basis on or after May 31, 2021. It is, further,

{¶ 40} ORDERED, That CTTS shall immediately commence notifying its customers of the changes to its tariff via bill message or bill insert, or separate mailing. The notification should occur on or before the receipt of the first bill reflecting the new rates. It is, further,

{¶ 41} ORDERED, That CTTS shall comply with the management and operations determinations adopted in this Opinion and Order. It is, further,

{¶ 42} ORDERED, That nothing in this Opinion and Order shall be binding upon the Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 43} ORDERED, That a copy of this Opinion and Order be served upon all parties of record.

COMMISSIONERS:

Approving:

Jenifer French, Chair

M. Beth Trombold

Lawrence K. Friedeman

Daniel R. Conway

Dennis P. Deters

MLW/hac

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Case No(s). 20-1585-ST-AIR

Summary: Opinion & Order granting the application of Carroll Township Treatment Services, Inc. for an increase in rates and charges, allowing a return of 8.80 percent for sewage disposal system services rendered in Carroll Township electronically filed by Heather A Chilcote on behalf of Public Utilities Commission of Ohio