



Public Utilities Commission

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May 18, 2023

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

RE: *In the Matters of the Application of Aqua Ohio, Inc. to Purchase Assets and Properties of the Village of La Rue, Ohio, Case No. 23-0137-WW-UNC, the Application of Aqua Ohio, Inc. to Amend Certificate of Public Convenience and Necessity Number 12, Case No. 23-0138-WW-AAC, the Application of Aqua Ohio, Inc. for Approval to Tariffs, Case No. 23-0139-WW-ATA.*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations Letter concerning the application filed by Aqua Ohio, Inc. regarding the provision of water service to the Village of La Rue, Ohio in Case Nos. 23-0137-WW-UNC, 23-0138-WW-AAC and 23-0139-WW-ATA.

Marianne Townsend
Chief, Regulatory Utility Services
Rates and Analysis, Dept.
Public Utilities Commission of Ohio

Jason Well
Section Chief, Regulatory Utility Services
Rates and Analysis, Dept.
Public Utilities Commission of Ohio

Aqua Ohio, Inc.

Case Nos. 23-0137-WW-UNC, 23-0138-WW-AAC, 23-0139-WW-ATA

BACKGROUND

On February 17, 2023, Aqua Ohio, Inc. (Aqua or the Company) filed an application with the Public Utilities Commission of Ohio (PUCO or the Commission) for approval of the purchase of assets and properties (the System) of the Village of La Rue, Ohio (the Village) related to the provision of water service. The application further seeks the amendment of Aqua's Certificate of Public Convenience and Necessity No. 12, the issuance of a new Tariff for service to the Village of La Rue and a waiver of any legal or public notice and hearings required under Ohio Adm. Code 4901:1-15-04 and 4901:1-15-05. On May 17, 2023, Aqua filed a notice of an update to Exhibit C to its application to correct errors in its metes and bounds description found by Staff.

APPLICATION

The Company has agreed to purchase the water service assets currently owned and in use to provide service to the Village. The Company's application as filed requested approval from the Commission of the asset purchase, the amendment of Certificate of Public Convenience and Necessity No. 12 to include the new territory, a new Tariff for service to the Village a waiver of notice and hearing as required in Ohio Adm. Code 4901:1-15-04 and 4901:1-15-05 and a request to accept appended verification in lieu of affidavits required by 4901:1-15-05(D)(22).

STAFF REVIEW

Staff reviewed the application, data requests, and supplemental information and notices for compliance with the R.C. 4905.481, R.C. 4905.30, R.C. 4933.25 and Ohio Adm. Rule 4901:1-15-07.

Asset Purchase

The Company is purchasing the property, plant and business of the Village's water treatment and distribution system as provided by R.C. 4905.481 which allows for the purchase of municipal water-works or sewage disposal systems.

Aqua and the Village of La Rue, on January 13, 2023, entered into an agreement for the sale of the assets and business of the water treatment and distribution system located in Marion County, Ohio. The assets include 4.76 miles of distribution mains, a 150,000 gallon elevated storage tank, and a water treatment facility with a design flow up to 250,000 gallons a day. The System provides water

service to approximately 279 residential customers, 10 commercial customers, 2 industrial customers and 5 Public/Fire customers in the Village of La Rue, Marion County, Ohio.

The Village is selling the System to Aqua for \$2,250,000. Aqua has also agreed to pay the salary of the current Village employee operating the System until such time a vacancy occurs in its Marion division. At that point, the employee will become a full-time employee of Aqua. Aqua has agreed that this will occur not more than two years upon closing of sale. In addition, Aqua intends to make capital investments to strengthen the System, address any compliance mandates from the Ohio Environmental Protection Agency, and enhance water quality and reliability.

Fair Market Valuation Legislation

Notably, Aqua states that the application does not include any request for approval of an original cost valuation under R.C. 4905.481, R.C. 4909.05(C)(3), and R.C. 4909.052(E). Aqua states that, consequently, it has not performed the utility system appraisals or valuations described in R.C. 4909.052 and that the application does not include a request to establish the rate base of the property being acquired pursuant to R.C. 4905.491(A). Given that R.C. 4905.481 et seq., requires rate base to be determined using the lesser of the purchase price of the acquired assets and the average of the three utility valuations, Staff believes that the utility valuations or appraisals addressed in R.C. 4905.481 et seq. must be conducted concurrently with the property acquisition. Staff believes that comparing a property purchase price with a utility valuation that is not conducted at the same time would not produce a just and reasonable comparison and, thus, would be inconsistent with the intent of the statute. Given Aqua's decision not to avail itself of the original cost valuation and rate base provisions of R.C. 4905.481 et seq., Staff believes Aqua has waived its right, as it pertains to this transaction and/or these assets, to do so in the future.

Certificate of Public Convenience and Necessity

The Company is seeking to amend its Certificate of Public Convenience and Necessity No. 12 as provided by R.C. 4933.25 and Ohio Adm. Rule 4901:1-15-07. Staff reviewed the managerial, technical, and financial capabilities of Aqua to provide safe, adequate, and reliable water service to the customers currently served by the Village and whether it is just and reasonable to amend Aqua's Certificate of Public Convenience and Necessity No. 12.

Managerial capability

Staff reviewed the Company's application and data requests to determine whether Aqua has the managerial capability to operate the System. Staff reviewed the resumes of key Aqua employees, the resume of a key Village employee who will continue operating the System as well as the Company's plan to transition service.

Aqua's management team all provide years of experience in public and private water and wastewater operations to satisfy the required managerial capabilities necessary to provide wastewater service.

Aqua currently provides water service in the Marion County area to approximately 17,569 customers and approximately 151,800 customers in Ohio.

The Company provided a communication and transition plan and materials through data requests including a welcome letter, FAQs, and a welcome kit. In addition, the Company is developing a webpage for frequently asked questions and customer service.

Staff believes that the Company in their communication and transition plan should also include the Customer Rights and Responsibilities as reflected in the Company's tariff and whether customers are required to submit an application for service with the transfer.

Technical Capability

Staff reviewed the Company's application and data requests to determine whether Aqua has the technical capability to operate the System. Staff reviewed the resumes of key Aqua employees, the resume of a key Village employee who will continue operating the System until such time as he is offered full time employment with Aqua, as well as the Company's plan to transition service.

Aqua's technical team provides years of experience in water operations to satisfy the required technical capabilities necessary to provide water service.

The Company provided a communication and transition plan and materials through data requests including a welcome letter, FAQs, and a welcome kit. In addition, the Company is developing a webpage for frequently asked questions and customer service.

Staff believes that the Company in their communication and transition plan should also include the Customer Rights and Responsibilities as reflected in the Company's tariff and whether customers are required to submit an application for service with the transfer.

Financial Capability

Aqua is the largest investor-owned water and sewer utility in the state of Ohio. As of December 31, 2022, Aqua's ongoing operations utilized approximately \$593.6 million of waterworks assets to provide water service to about 151,800 Ohio customers and \$17.4 million of wastewater assets to provide sewer service to about 6,949 Ohio customers. Aqua's operating expenses and financial obligations arising from acquisitions of other utility systems are met by a combination of funds from operations, debt (both short- and long-term), and equity from its ultimate parent company Essential Utilities, Inc. (Essential). Essential is a utility holding company that manages regulated water and wastewater operating companies in multiple states as well as a natural gas distribution utility. Essential is publicly traded with a market capitalization of approximately \$11 billion. Essential's size

and access to capital markets provides Aqua with adequate resources and liquidity to fund the proposed acquisition.

Tariff review

R.C. 4905.30 requires a public utility to print and file with the Commission schedules showing all rates, classifications, and charges for service of every kind and all rules and regulations affecting them. Ohio Adm. Code 4901:1-15-15 provides for the minimum contents of a waterworks and/or sewage disposal system company tariff.

The Company in its application filed a new tariff for the La Rue service territory. Staff has reviewed the Company's tariff for compliance with minimum contents as required by Ohio Adm. Code 4901:1-15-15 and bill format and believes the tariff to be compliant with the rules.

Waivers

The Company has requested waiver of any legal or public notice and hearings under Ohio Administrative Code 4901:15-04 and 4901:1-15-05. The Company in its application expresses that further notice and a hearing are unnecessary declaring that the negotiation for sale was open and transparent and that the Mayor, the Council of the Village, and the Solicitor of the Village have the authority to bind the Village to the sale and enact the locally negotiated rates.

Staff believes that the waiver of an additional notice and a hearing is reasonable.¹

Aqua further requests that the Commission accept appended verifications in lieu of the affidavits required by Ohio Adm. Code 4901:1-15-05(D)(22).

Staff believes that acceptance of the appended verifications in lieu of affidavits is reasonable and in the public interest.

STAFF RECOMMENDATIONS

The Company proposes to acquire the System under R.C. 4905.481, does not seek original cost valuation under the fair market value legislation, and seeks to serve the System's customers under ordinance rates approved by the Village of La Rue. Staff found that Aqua has the managerial, technical and financial capability to serve the System's customers. Staff finds that the application is not unjust and unreasonable and recommends the Commission approve the acquisition, subject to Staff's recommendations within this letter.

Staff notes that the investment costs of serving the Systems' customers is approximately 2.5 times higher than Aqua's existing water customers. Staff recommends that in any future application to

¹ See *In the Matter of the Application of Aqua Ohio, Inc. to Purchase the Assets and Properties of the City of Campbell*, Case No. 19-1610-WS-UNC, et al., Finding and Order at 7-8 (Dec. 18, 2019).

establish rates for Aqua's customers, the Commission require the Company to demonstrate that Aqua's existing customers served under its P.U.C.O. No. 2 Consolidated Tariff will not subsidize the System's customers.

**This foregoing document was electronically filed with the Public Utilities
Commission of Ohio Docketing Information System on**

5/18/2023 1:56:43 PM

in

Case No(s). 23-0137-WW-UNC, 23-0138-WW-AAC , 23-0139-WW-ATA

Summary: Staff Review and Recommendation electronically filed by Mrs. Tanika
Hawkins on behalf of PUCO Staff.