Before
The Ohio House
Energy and Natural Resources Committee

Testimony on House Bill 422
(Changes to Ratemaking Law that Can Affect Water Utility Consumers' Bills)

by
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On Behalf of the
Office of the Ohio Consumers' Counsel

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Hello Chair Landis, Vice-Chair Hagan, Ranking Minority Member O'Brien, and members of the Committee. I am Dan Shields, Director of Analytical Services at the Office of the Ohio Consumers' Counsel. The Consumers' Counsel is the state representative of four million Ohio residential utility consumers, including those that would be affected by House Bill 422 (the Bill). Thank you for this opportunity to testify.

At the outset, we look forward to working with the Bill sponsor, stakeholders and the Committee with regard to this legislation. At this time, we oppose the legislation out of concern for rate increases that could result on Ohio water consumers' monthly bills.

In this regard, our principal concern with the legislation is that the Bill would reduce or eliminate important statutory ratemaking protections for Ohio water consumers (for the purpose of the

utility making acquisitions of other water systems). This concern includes (among other concerns) that the Bill would undermine the long-time protection of certain ratemaking statutes in O.R.C. Title 49 that Ohio utility consumers should not pay rates based on more than the "original cost" of acquiring utility plant (assets). (See lines 173 through 212)

The use of original cost for ratemaking, in O.R.C. 4909.05, is fair to utilities and to consumers. But the Bill would redefine original cost in a way that can lead to higher valuations of acquired utility plant and thus higher rates for consumers.

The use of original cost (in its intended form) as a fair ratemaking method for consumers is described in a classic ratemaking treatise. That treatise, "Principles of Public Utility Rates," addresses the original construction cost as a ratemaking method as follows: "Original cost, in public utility accounting has now become a term of art. It means the cost of an asset when first devoted to the public service **rather than the cost to a transferee company.**" [James Bonbright, p. 174 (1969) (emphasis added).]

We are concerned that the Bill, by modifying the definition of original cost (lines 107-108), would undermine traditional consumer protections. Specifically, the revised definition in the Bill will allow the water utility to charge the market value for a monopoly service as opposed to its actual original cost. In this regard, the market value can inflate the true cost to consumers. More specifically, the Bill would allow the regulated water utility to charge consumers higher rates than the utility would be able to charge otherwise, where the acquisition cost of plant is inflated above true original cost.

The Bill also provides that the "original source of funding for any part of the tangible assets shall not be relevant to the determination of the value of those assets." (Lines 206-208) In other words,

even if customers already paid for the cost of the assets (or if a government grant paid for the asset), that payment could be irrelevant. And the customer could be required to pay again through higher rates the acquiring utility could charge. That is a problem for consumer protection.

Accordingly, we recommend that House Bill 422 not be enacted to change the meaning or use of "original cost" (and other rate methodologies) in the ratemaking statutes that determine the water bills for Ohio utility consumers.

Again, I thank the Committee and the Bill sponsors for this opportunity to make recommendations for protection of Ohio utility consumers. We look forward to making further recommendations during any process for this legislation.