



Edmund P. Kolodziej, Jr.

President & Chief Operating Officer
Aqua Ohio

Chairman Landis, Vice-Chair Hagan, Ranking Member O'Brien, members of the House Energy and Natural Resources Committee, thank you for allowing me the opportunity to offer proponent testimony in support of House Bill 422.

As president of a regulated water and wastewater utility in Ohio, I believe that HB 422 provides an opportunity to address an issue that is critical to sustaining the drinking water and sewage disposal infrastructure for municipalities in Ohio.

Although Aqua Ohio serves approximately 500,000 residents in Ohio, the vast majority of our state's population on public water-works and sewage disposal systems is served by municipalities. Many of these municipal systems are in dire need of a capital investment to support the replacement of aging infrastructure along with meeting more stringent environmental requirements, levels of service reliability and consumer safety.

Currently, the American Society of Civil Engineers estimates that Ohio will require more than \$12 billion to be invested in water systems and more than \$14 billion in wastewater systems infrastructure over the next 20 years, and most communities have no plan to fund this investment since the needs may outpace local resources.

While these levels of investment are striking, particularly in light of state and local budget constraints, there is a relatively untapped source of funds for these infrastructure replacements and improvements ... the large regulated public utilities.

Ohio's municipal public water and wastewater systems are highly fragmented. Currently, according to the U.S. EPA, there are some 52,000 community water systems in the United States and Ohio alone has around 5,000 of these. This fragmentation and lack of funding often leaves municipal systems with a lack of operational expertise and access to financial sources necessary to fund investments. As a result, municipalities are further challenged to deliver safe, reliable drinking water and ensure compliance with environmental standards with their wastewater operations.

In some circumstances, large regulated public utilities may be able and willing to invest in these municipal systems through a public-private partnership (P3) or an outright purchase to bring them into environmental compliance and assure sustainable service reliability. However, one of the current roadblocks to such a P3 or an acquisition is a market-based determination of the property value for the municipality's water-works and sewage disposal system.

The difficulties in determining the current property value of municipal water-works or sewage disposal system rests with the municipal corporation's accounting methods that do not

represent the fair market value of that property. Traditional methods of original cost depreciated that are used by regulated public utilities to determine property value are not used by municipalities in their annual budgeting process.

Due to this barrier, municipal public water-works or sewage disposal systems may be deprived from receiving market value for their assets and the acquiring regulated public utilities are prevented from recognizing their entire investment in customer rates.

This legislation removes this barrier by creating a valuation appraisal process to determine the market-based asset value. This asset value would then be considered in the process of setting customer rates after the regulated utility acquires water or wastewater assets from a municipal authority.

HB 422 clarifies, on behalf of all parties involved, key elements of the process of determining what a municipal water-works and sewage disposal system is worth under the regulatory oversight of the Public Utilities Commission of Ohio (PUCO) by:

- Creating a clear process for the PUCO to evaluate a regulated public utility's acquisition of a municipal water and wastewater system by engaging three independent utility property valuation experts;
- Specifying how these experts will utilize several alternative methods to assess the value of tangible utility assets of the acquired systems should result in more accurate, market-based values for water and wastewater systems;
- Create a process to determine rate base used for future rate making to customers;
- Pre-specify the rate setting between the time of the acquisition and the next rate proceeding;
- Specifying how the post-acquisition infrastructure improvements that precede the next rate case will be recognized in customer rates.

Lastly, an important aspect of H.B. 422 is that both the municipality and the regulated utility are both willing participants in a public-private partnership or sale of the water and/or wastewater system.

Similar legislation has been successfully implemented in Indiana, Pennsylvania, Illinois, Missouri, New Jersey and California. This legislation opens the opportunity to Ohio's municipalities with water-works and sewage disposal system infrastructure needs to partner with interested large regulated public utilities.

Thank you for your consideration of this important legislation. I will be happy to answer any questions the committee may have.