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Chairman Beagle, Vice-Chair McColley, Ranking Member Williams, members of the Senate Public Utilities 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 throughout Ohio.

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

As HB 422 sponsors previously testified, 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. Many communities have no plan to fund this investment since the needs may outpace local resources.

By any measure, the needed levels of investment in water and sewage disposal systems are striking, particularly in light of state and local budget constraints. However there is a relatively untapped resource for these infrastructure replacements and improved operations ... the large regulated public utilities.

Ohio's municipal public water and wastewater systems are highly fragmented with an excess of 5,700 public water systems across the state. This fragmentation creates an environment where municipalities, especially the small and mid-size communities, compete for limited funds while often impacted by lack of efficiencies and operational expertise. 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 are able to leverage capital, economies of scale and operational expertise to invest in these municipal systems through an outright purchase of the municipal system(s). Our experience has shown that more and more municipalities have expressed an interest in exploring this option. However, one of the current roadblocks to such an acquisition is the lack of a market-based determination of the property value for the municipality's water-works and/or sewage disposal system.

The difficulties in determining an accurate value of municipal water-works or sewage disposal system rests with the municipal corporation's accounting methods that may not represent the fair market value of that property. Traditional methods of original cost plus investment depreciated that are used by regulated public utilities to determine property value may not be used by municipalities in their annual budgeting process

Unfortunately, this issue has the potential to impact a municipality's ability to sell their system. 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 utility is prevented from recognizing its entire investment in customer rates.

HB422 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 upon the regulated utility acquiring the water or wastewater assets from a municipal authority.

HB 422 clarifies, on behalf of all parties involved, the framework for determining the value of a municipal water-works and sewage disposal system. This valuation is done under the regulatory authority 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 thereby resulting in more accurate, market-based values for water and wastewater systems;
- Creating a process to determine rate base to be used for future rate making;
- Establishing rates 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 it only applies when both the municipality and the regulated utility are 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. Mr. Mancari and I will be happy to answer any questions the committee may have.