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September 5, 2007

Ms. Renée Jenkins
Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street, 13th Floor
Columbus, Ohio 43215

RECEIVED-DOCKETING DIV
2007 SEP -5 PM 5:00
PUCO

Re: *In the Matter of the Application of Waterville Gas & Oil Company for Authority to Amend its Filed Tariffs to Increase the Rates and Charges for Gas Service and Related Matters, Case No. 07-0194-GA-AIR*

Dear Ms. Jenkins:

Enclosed for filing please find the original and twenty copies of Waterville Gas & Oil Company's Objections to the Staff Report of Investigation and Summary of Major Issues. Please contact me if you have any questions regarding this filing.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Andrew J. Sonderman'.

Andrew J. Sonderman
Counsel for Waterville Gas & Oil Company

Attachment

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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

IN THE MATTER OF THE)	
APPLICATION OF WATERVILLE)	
GAS & OIL COMPANY FOR)	
AUTHORITY TO AMEND ITS FILED)	
TARIFFS TO INCREASE THE)	CASE NO. 07-0194-GA-AIR
RATES AND CHARGES FOR GAS)	
SERVICES AND RELATED)	
MATTERS.)	

**WATERVILLE GAS & OIL COMPANY'S
OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION AND
SUMMARY OF MAJOR ISSUES**

Pursuant to Section 4909.19, Ohio Rev. Code, and Rule 4901-1-28, Ohio Administrative Code, Waterville Gas & Oil Company ("Waterville"), the applicant herein, hereby respectfully submits its objections to the Staff Report of Investigation ("Staff Report") filed in this docket on August 15, 2007. Waterville submits that these objections meet the specificity requirement of Ohio Admin. Code Rule 4901-1-28.

I. Objections

In submitting the Objections listed below, Waterville specifically reserves the right to contest, through presentation of documentary evidence, testimony or cross-examination, issues on which the Staff's position changes, or which are newly raised, by Staff or any other intervenor, between the issuance of the Staff Report and the closing of the record.

1. Revenue Requirement. Applicant objects to the revenue increase range from \$249,861 to \$322,059 recommended by the Staff at Schedule A-1

of the Staff Report. This revenue increase proposed by Staff understates the cost of service of the applicant as reflected in its 2006 Annual Report and work papers and responses to data requests submitted to Staff. Waterville submits that the recommended increase is the result of certain unreasonable, unlawful and erroneous determinations that will result in rates insufficient compensation and return on investment for the services provided to consumers.

2. Jurisdictional/non-jurisdictional cost allocations. As noted by Staff at page 5 of the Staff Report, a portion of its service is rendered within the Village of Waterville pursuant to municipal ordinance, and a portion of its service is rendered pursuant to rates established by the Commission in areas outside the Village of Waterville. Waterville agrees that it is necessary and proper to allocate those costs that cannot be directly assigned to service within or outside the Village of Waterville to ensure that the revenue requirement established is sufficient to cover the cost of rendering service to jurisdictional customers in the rates determined in this proceeding. Staff has employed a five-factor allocation formula based on a weighted average of gross distribution plant; net distribution plant; customers; sales volumes in Mcf; and operating revenues. Staff claims that this allocation methodology is “similar to allocation used by the Staff and approved by the Commission in several previous rate cases.” (Id.). However, this ignores that the Commission’s final orders establishing rates in Waterville’s last two applications pursuant to Ohio

Rev. Code §4909.18 approved the two-factor weighted average of sales volumes and customers jurisdictional allocation factor Waterville employed in developing its proposed rates. It also distorts the reality that Waterville's growth in sales volumes and customers is substantially outside the Village of Waterville.

3. **Lease Revenue Adjustment.** Schedule C-3.4 increases pro forma operating revenue by \$33,000 for a warehouse used in its utility operation. This is erroneous for two reasons. First, Waterville paid \$33,000 in the test year to its affiliate and the owner of the leased warehouse and underlying real estate, Waterville Gas Company. It received no lease income, and will receive none when the rates approved in this proceeding are effective. Waterville provided Staff with documentation of the ownership of the leased premises and a corrected lease reflecting the lease payments to the owner, Waterville Gas Company. Second, even if it were correct that the imputation of this lease revenue is based on fact, the imputation of \$33,000 does not take into account that the leased warehouse space supports Waterville's jurisdictional and non-jurisdictional utility service. For that reason, a jurisdictional allocation would be necessary and appropriate.
4. **Staff Expense Adjustments.**
 - a. **Office Supplies and Other Expenses.** At page 8 of the Staff Report and Schedule C-3.11, Staff adjusts operating expenses by certain unspecified "Non-utility related expenses" without further explanation.

This adjustment, and all operating expense adjustments where a jurisdictional expense allocation was used, is also overstated by application of the five factor weighted average jurisdictional allocation methodology described in Objection No. 2, above.

b. Lease Expense. At Page 9 of the Staff Report and on Schedule C-3.14, Lease Expense is reduced by \$45,600 based on (a) the erroneous conclusion that Waterville owned the leased premises which in fact it leases from its affiliate and owner of the leased premises, Waterville Gas Company; and (b) Staff's conclusion that "sufficient room" in the warehouse exists, without explaining the basis for that conclusion.

Moreover, no jurisdictional allocation appears to have been applied to the lease expense even if it were assumed to be appropriately deducted from operation expenses, even though the lease expenses supports both jurisdictional and non-jurisdictional utility service to customers.

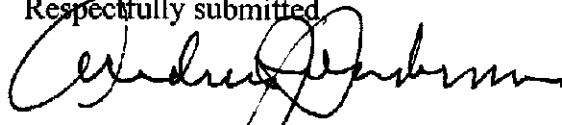
c. Miscellaneous General Expense. At Page 9 of the Staff Report and on Schedule C-3.17, Staff maintains that the adjusted expense item of \$56,283.00 is the result of application of its five-factor weighted average jurisdictional allocation methodology. However, even if that five-factor weighted average were appropriate, it appears to have been miscalculated and should have been \$60,255.00.

II. Summary of Major Issues

Through the following identification of major issues, Waterville does not waive any of the foregoing filed objections that raise any other issues:

1. The fair amount of revenue increase to which the applicant is entitled;
2. The proper jurisdictional allocation factor to be applied to Waterville's service outside the Village of Waterville for which rates will be established in this proceeding
3. The inclusion of appropriate expenses in operating income.

Respectfully submitted,



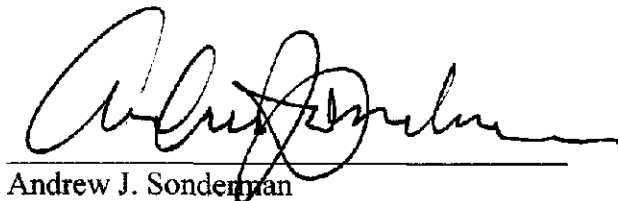
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Counsel for Waterville Gas & Oil Company

CERTIFICATE OF SERVICE

I hereby certify that a copy of Waterville Gas & Oil Company's Objections to Staff Report of Investigation and Summary of Major Issues was served on counsel for the Commission Staff on this 5th day of September, 2005 by hand delivery:

Werner Margard, III
John Jones
Assistant Attorneys General
Public Utilities Section
Public Utilities Commission of Ohio
180 E. Broad Street., 9th Floor
Columbus, Ohio 43215



Andrew J. Sonderman