

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio-
American Water Company to Increase Its
Rates for Water and Sewer Service.)

Case No. 11-4161-WS-AIR

FILE

SECOND SUPPLEMENTAL DIRECT TESTIMONY OF
GARY M. VERDOUW
ON BEHALF OF
OHIO-AMERICAN WATER COMPANY

RECEIVED-SOCKETING DIV

2012 MAR -1 PM 5:22

PUCO

- ☐ Management policies, practice and organization
- ☒ Operating income
- ☒ Rate base
- ☐ Allocations
- ☐ Rate of return
- ☒ Rates and tariffs
- ☐ Other

1 **Second Supplemental Direct Testimony of**

2 **Gary M. VerDouw**

3 **I. WITNESS INTRODUCTION**

4 **Q1. Please introduce yourself.**

5 A1. My name is Gary M. VerDouw. I am employed by American Water Works Service
6 Company as its Director of Rates – Central Division. My business address is 727 Craig
7 Road, St. Louis, Missouri 63141.

8 **Q2. Are you the same Gary M. VerDouw that previously submitted direct testimony and**
9 **supplemental direct testimony in this proceeding?**

10 A2. Yes.

11 **Q3. What is the purpose of your second supplemental direct testimony?**

12 A3. My testimony explains the basis for Ohio-American Water Company's ("Ohio American"
13 or "Company") objections to the Rate Base, Operating Income and Rates & Tariffs
14 section of the Staff Report of Investigation filed on January 31, 2012; specifically,
15 Objection Nos. 1 – 5 and 9 as set forth in the Company's Objections filed in this
16 proceeding on March 1, 2012.

17 **Q4. Are you sponsoring any exhibits with your testimony?**

18 A4. Yes. I am sponsoring OAW Exhibits 2.2.1 and 2.2.2.

19 **II. REVENUE REQUIREMENT OBJECTION**

20 **Q5. What is the Company's objection to the Revenue Requirement section of the Staff**
21 **Report?**

22 A5. Objection No. 1 pertains to Staff's adjustment to the Company's Gross Revenue
23 Conversion Factor. (Staff Report at 3; Schedule A-1.1.)

Q6. What is the basis for this objection to Staff's Revenue Requirement adjustments?

A6. Staff uses a Federal Income Tax rate of 34% in making its federal income tax adjustment to the calculation of the Gross Revenue Conversion Factor. Staff should use a federal income tax rate of 35% in making the calculation. While there are some marginal rates lower than 35% that are used to calculate federal income tax, all additional operating income that is a result of a rate increase included in this filing would be taxed at 35%. The use of a 34% federal income tax rate lowers the revenue requirement necessary to generate the proper net income that would be needed to be recognized in this case. As such, the Company objects to the use of a 34% federal income tax rate; instead, a 35% rate should be used.

III. RATE BASE OBJECTIONS

Q7. What are the Company's objections to the Rate Base section of the Staff Report?

A7. The Company has three objections. Objection No. 2 pertains to Staff's adjustment to exclude retired plant in Water Plant A. (Staff Report at 4, 5, and 6; Schedule B-2.2a1, B-2.2a2, and B-2.2a5.) Objection No. 3 pertains to Staff's adjustment to deferred depreciation. (Staff Report at 8; Schedule B-6.) Objection No. 4 pertains to Staff's calculation of Contributions in Aid of Construction. (Staff Report at 8; Schedule B-6.)

Q8. What is the basis for the objection to Staff's Water Plant A plant adjustments?

A8. Staff adjusts Rate Base to exclude Electric Pumping Equipment at Lake White in the amount of \$29,515 and a PH Meter in Marion in the amount of \$3,740. These items were mostly retired prior to Ohio American filing Case No. 09-0391-WS-AIR. A portion of the Lake White Electric Pumping Equipment was retired in September 2005, with the remainder being retired in October 2010. The two Marion PH Zeta Meters were retired

1 in May 2003 (\$2,479.85) and September 2005 (\$1,259.54), with those retirements
2 totaling \$3,739.39. See OAW Exhibit 2.2.1. Since these items had been retired prior to
3 the start of this case and are not a part of the Company's Rate Base for this case, there is
4 nothing more to retire. Staff's proposed adjustment to retire these items would result in a
5 double counting of the retirement of these assets. As such, the Company objects to the
6 elimination of these items from Rate Base.

7 The Company also objects to the Corporate Office Exclusion in the amount of
8 \$6,084 relative to Other Tangible Plant. Pages 5 and 6 of the Staff Report discuss a total
9 adjustment of \$133,860 relative to the exclusion of Corporate Office Plan, yet only
10 mention the adjustments of \$115,748 and \$12,028 made to remove the Applicant's
11 Business Transformation project total and to reclassify plant from Water A to Water C,
12 respectively. The remaining amount of \$6,084 is not discussed or explained as to its
13 nature or reasoning for removal, even though Staff Schedule B-2.2a5 gives an
14 explanation of "refer to text" as to the reason for removal. The Company believes this
15 may be an oversight by Staff in including this item and as such believes the adjustment in
16 the amount of \$6,084 should not be made to Rate Base.

17 **Q9. What is the basis for the Company's objection to the deferred depreciation**
18 **adjustment?**

19 A9. Staff cites the Company's response to Staff Data Request No. 12 (Staff Report at 129,
20 Schedule B-6, fn (d)) as the basis for an adjustment reducing deferred depreciation
21 expense from the Company's filed amount of \$129,945 to the amount of \$40,905, thus
22 reducing the total deferred depreciation by \$89,040. Staff's adjustment does not consider

1 supplemental information provided in response to this data request. The adjustment
2 should therefore be rejected.

3 Staff Data Request No. 12 asked the Company to provide case numbers for
4 various deferred depreciation items. The Company's original response did not include all
5 of the case numbers requested, as research was ongoing to locate the information
6 requested by Staff. When this research was completed, the Company updated its
7 response to Staff Data Request No. 12 and served it to Staff on October 31, 2011. A
8 great deal of research went into locating all of the information that supported the entire
9 deferred depreciation total. Yet, after that information was provided, it was not
10 considered. A full copy of the amended data request response and supporting
11 documentation is included as OAW Exhibit 2.2.2.

12 **Q10. Why is it important to include the entire unamortized deferred depreciation balance**
13 **in rate base?**

14 A10. If the unamortized deferred depreciation balance is not included in rate base, the
15 relationship between the rate base and the capital structure will not be consistent because
16 Ohio American's rate base will be improperly reduced by an amount which has not yet
17 flowed to the income statement/retained earnings. In effect, the Company will be
18 precluded from a return "on" or "of" its investment in the items that correspond with the
19 deferred depreciation balances.

20 **Q11. What is the basis for the Company's objection to the adjustment to Contributions in**
21 **Aid of Construction?**

22 A11. Staff Schedule B-6 reflects Contributions in Aid of Construction (Line (2) of the
23 schedule) at (\$1,081,681) for Water C and (\$1,685,885) for Wastewater, for a total of

1 (\$2,767,566). In support of these numbers, Staff Schedule B-6 references Staff
2 Workpaper WPB-6.2 as its source. Staff has used a different allocation methodology
3 than the Company in calculating the remaining CIAC to be considered for rate case
4 purposes. The Company believes that its calculation is correct and should be recognized
5 and used for calculation purposes. For this reason, the Company objects to Staff
6 calculation of Contributions in Aid of Construction and instead believes the Company's
7 calculation should be used.

8 **IV. OPERATING INCOME OBJECTION**

9 **Q12. What is the Company's objection to the Operating Income section of the Staff**
10 **Report?**

11 A12. Objection No. 5 pertains to Staff's Federal Income Tax calculation. (Staff Report at 11;
12 Schedules C-3.6 and C-4.)

13 **Q13. What is the basis for this objection?**

14 A13. Ohio American's federal income taxes are all paid at a 35% level as a tax consolidated
15 subsidiary of American Water Works. As such, the Company objects to Staff's
16 calculation of federal income taxes at a rate that is other than 35%. In addition, the
17 Company objects to Staff's Federal Income Tax calculation to the extent that other
18 objections made by the Company and explained in my testimony earlier would flow
19 through to Federal Income Tax, thus over or understating the results.

20 **Q14. Does the Company have any other issues with Staff's calculation of Federal Income**
21 **Tax?**

22 A14. Yes. In the Company's review of the Staff Schedule C-3.6 (Staff Report at 145), it was
23 determined that an incorrect level of test year federal income taxes is reflected on Line

(2) of the schedule. As a result, the Federal Income Tax Expense included in the Staff Report is incorrect.

V. RATES AND TARIFFS OBJECTIONS

Q15. What is the Company's objection to the Rates and Tariffs section of the Staff Report?

A15. Objection No. 9 pertains to Staff's calculation of the customer charge. (Staff Report at 34-37.)

Q16. What is the basis for this objection?

A16. Staff reduces the Company-proposed customer charge from \$11.50 to \$8.55 by excluding from this charge costs associated with public fire protection and the customer-related portion of management fees. Neither cost should be excluded from the customer charge.

Public fire protection costs are fixed costs that are not recovered through public fire hydrant rates and thus should be included in the customer cost analysis. They are allocated to customer classifications based on the meter equivalents so that customers with larger meters pay more toward fire protection. (This reflects that customers with larger meters generally have higher property values.) Public fire costs are fixed costs which primarily include the depreciation, return and taxes on the rate base facilities required to provide the extra capacity for fire demands as well as hydrant maintenance. These costs do not vary with the amount of water consumed and therefore should not be included in volumetric charges.

The customer-related portion of the management fee is directly related to the customer costs appropriately recovered through the customer charge. These costs relate to the Call Center and any other customer-related costs such as billing and collecting.

1 These costs would have to be covered directly by the Company in the Customer
2 Accounting Expense if American Water Works Service Company did not provide these
3 services. The Company's recommended monthly customer charge of \$11.50 has been
4 fully supported and should be approved.

5 **Q17. Does this conclude your second supplemental direct testimony?**

6 A17. Yes.

CERTIFICATE OF SERVICE

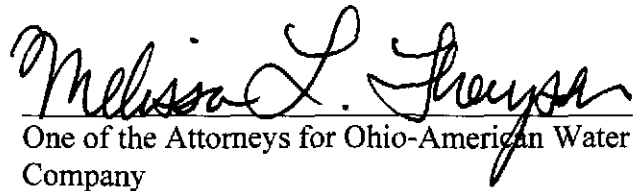
I hereby certify that a copy of the foregoing Second Supplemental Direct Testimony of Gary M. VerDouw was served by electronic mail on the 1st day of March, 2012, to the following:

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One of the Attorneys for Ohio-American Water
Company

**Ohio American Water
11-4161-WS-AIR**

Adjustment - Elec Pumping Equipment

	<u>Beg Balance</u>	<u>JDE Asset</u>	<u>PowerPlant Asset</u>	<u>Asset Split \$ = RECLASSED</u>	<u>Retired</u>	<u>Retire Date</u>
	\$ 32,899.00	22008406	8451517	\$ (29,914.84)	\$ (2,984.16)	Oct 2010
		30111305	8510369	\$ 11,825.27	\$ (11,825.27)	Oct 2010
		30111306	8451808	\$ 89.57	\$ (89.57)	Oct 2010
		30111307	0	\$ 3,655.00	\$ (3,655.00)	Sept 2005
		30111308	0	\$ 554.00	\$ (554.00)	Sept 2005
		30111309	0	\$ 5,118.00	\$ (5,118.00)	Sept 2005
		30111310	0	\$ 3,358.00	\$ (3,358.00)	Sept 2005
		30111311	0	\$ 1,863.00	\$ (1,863.00)	Sept 2005
		30111312	0	\$ 382.00	\$ (382.00)	Sept 2005
		30111313	8451515	\$ 3,070.00	\$ (3,070.00)	Oct 2010
Total	\$ 32,899.00			\$ -	\$ (32,899.00)	

Adjustment - Meters

	<u>Beg Balance</u>	<u>JDE Asset</u>	<u>PowerPlant Asset</u>	<u>Asset Split \$</u>	<u>Retired</u>	<u>Retire Date</u>
	\$ 3,739.39	30036078		\$ -	\$ (2,479.85)	May 2003
		30111320			\$ (1,259.54)	Sept 2005
Total	\$ 3,739.39			\$ -	\$ (3,739.39)	

CPR Ledger Entry Activity

Entry Activity Information

Activity Code	Ferc Activity Code	Disposition Code	Activity Description	Activity Long Description	Quantity	Activity Cost (SEC)	Posting Date	Work Order Number
UTRT	Transfer	None	LAKE WHITE ACQ A/CH 325	transfer OH assets to correct asset locati	0.04	\$2,984.16	Jun-2009	441155
URET	Retirement	None	Retirement	LAKE WHITE ACQ A/CH 325 11/1/2010	-0.04	[\$2,984.16]	Oct-2010	514178
Total for Activities:					.00	\$0.00		

Detail

Print B/D

Sort Basis

Drill to WO

Cancel

CPR Ledger Entry Activity

Set Of Books: SEC

Entry Activity Information

Activity Code	Fac Activity Code	Disposition Code	Activity Description	Activity Long Description	Quantity	Activity Cost (SEC)	Posting Date	Work Order Number	
UTRT	Transfer	None	PME IN WELL BLDGS	transfer	0.02	\$11,825.27	Jun-2009	441155	Detail
URET	Retirement	None	Retirement	PME IN WELL BLDGS 11/1/2010	-0.02	(\$11,825.27)	Oct-2010	514178	Memo H/U
Total for Activities:					.00	\$0.00			

Sort Basis

Drill to WO

Cancel

CPR Ledger Entry Activity
Set Of Books: SEC

Entry Activity Information

Activity Code	Fare Activity Code	Disposition Code	Activity Description	Activity Long Description	Quantity	Activity Cost (SEC)	Posting Date	Work Order Numb
UTRT	Transfer	None	GELMAN VACUUM PUM Retirement	Transfer to correct location	1	\$580.69	Jun-2009	441155
URET	Retirement	None	GELMAN VACUUM PUM Retirement	GELMAN VACUUM PUM : Pre-1999 Balance	0	(\$89.57)	Oct-2010	514178
Total for Activities:					1.00	\$491.12		

Detail

Memo R/U

Sort Basis

Drill to WO

Cancel

12211 Item Transaction Inquiry

Item Number	<u>30111307</u>	From Date/Period	<u>01/01/05</u>
	<u>RET PME AUTH 5897-1 1953</u>	Thru Date/Period	<u>12/31/05</u>
Account Number	<u>221005.108145</u>	Book (Ledger Ty)	<u>AA</u>
	<u>AD UPIS-Orig Cost-Not Classifd</u>	Subldgr/Ty(*=All)	<u> </u>

DT Document	Date	Explanation	Debit	Credit	P
AD 30216225	09/09/05	FASTR - DISPOSAL F	3,655.00		P
		----- Account		Balances -----	
		Ledger Total	3,655.00		
		Y-T-D Period End			
		Cumul Period End	3,655.00		

. F4=Full Detail F24=More Keys

12211

... Item Transaction Inquiry ...

Item Number. . . . 30111308 From Date/Period 01/01/05
 RET PME AUTH 5897-2 1971 Thru Date/Period 12/31/05
 Account Number . . 221005.108145 Book (Ledger Ty) AA
 AD UPIS-Orig Cost-Not Classifd Subldgr/Ty(*=All)

DT Document	Date	Explanation	Debit	Credit	P
AD 30216225	09/09/05	FASTR - DISPOSAL F	554.00		P
		Ledger Total	554.00		
		Y-T-D Period End			
		Cumul Period End	554.00		

..... F4=Full Detail F24=More Keys

12211

... Item Transaction Inquiry ...

Item Number. . . . 30111309 From Date/Period 01/01/05
 RET PME AUTH 5897-3 1972 Thru Date/Period 12/31/05
 Account Number 221005.108145 Book (Ledger Ty) AA
 AD UPIS-Orig Cost-Not Classifd Subldgr/Ty(*=All)

DT Document	Date	Explanation	Debit	Credit	P
AD 30216225	09/09/05	FASTR - DISPOSAL F	5,118.00		P
		----- Account		Balances -----	
		Ledger Total	5,118.00		
		Y-T-D Period End			
		Cumul Period End	5,118.00		

..... F4=Full Detail F24=More Keys

12211

... Item Transaction Inquiry ...

Item Number. . . . 30111310 From Date/Period 01/01/05
 RET PME AUTH 5897-4 1978 Thru Date/Period 12/31/05
 Account Number 221005.108145 Book (Ledger Ty) AA
 AD UPIS-Orig Cost-Not Classifd Subldgr/Ty(*=All)

DT	Document	Date	Explanation	Debit	Credit	P
AD	30216225	09/09/05	FASTR - DISPOSAL F	3,358.00		P
			----- Account		Balances -----	
			Ledger Total	3,358.00		
			Y-T-D Period End			
			Cumul Period End	3,358.00		

..... F4=Full Detail . F24=More Keys

12211

... Item Transaction Inquiry ...

Item Number. . . . 30111311 From Date/Period 01/01/05
RET PME AUTH 5897-5 1980 Thru Date/Period 12/31/05
Account Number . . . 221005.108145 Book (Ledger Ty) AA
AD UPIS-Orig Cost-Not Classifd Subldgr/Ty(*=All)

DT Document	Date	Explanation	Debit	Credit	P
AD 30216225	09/09/05	FASTR - DISPOSAL F	1,863.00		P
			Account	Balances	
		Ledger Total	1,863.00		
		Y-T-D Period End			
		Cumul Period End	1,863.00		

..... F4=Full Detail, F24=More Keys

12211

... Item Transaction Inquiry ...

Item Number. . . . 30111312 From Date/Period 01/01/05
 RET PME AUTH 5897-6 1981 Thru Date/Period 12/31/05
 Account Number 221005.108145 Book (Ledger Ty) AA
 AD UPIS-Orig Cost-Not Classifd Subldgr/Ty(*=All)

DT Document	Date	Explanation	Debit	Credit	P
AD 30216225	09/09/05	FASTR - DISPOSAL F	382.00		P
		----- Account		Balances -----	
		Ledger Total	382.00		
		Y-T-D Period End			
		Cumul Period End	382.00		

..... F4=Full Detail . F24=More Keys

CPR Ledger Entry Activity

Set Of Books:

SEC

Entry Activity Information

Activity Code	Forc Activity Code	Disposition Code	Activity Description	Activity Long Description	Quantity	Activity Cost [SEC]	Posting Date	Work Order Number
UTRT	Transfer	None	PME AUTH 5898-2 1999	transfer OH assets to correct asset location	0.07	\$3,070.00	Jun-2009	441155
URET	Retirement	None	Retirement	PME AUTH 5898-2 1999 11/1/2010 00:00:	-0.07	(\$3,070.00)	Oct-2010	514178
Total for Activities:					.00	\$0.00		

Detail

Mean 13/11

Sort Basis

Drill to WO

Cancel

12211

... Item Transaction Inquiry ...

Item Number	<u>30036078</u>	From Date/Period	<u>01/01/03</u>
	<u>Ret- Zeta Meter</u>	Thru Date/Period	<u>12/31/03</u>
Account Number	<u>220205.108145</u>	Book (Ledger Ty)	<u>AA</u>
	<u>AD UPIS-Orig Cost-Not Classifd</u>	Subldgr/Ty(*=All)	<u> </u>

DT Document	Date	Explanation	Debit	Credit	P
AD 30092757	05/08/03	FASTR - DISPOSAL F	2,479.85		P
		----- Account		Balances -----	
		Ledger Total	2,479.85		
		Y-T-D Period End			
		Cumul Period End	2,479.85		

..... F4=Full Detail F24=More Keys

12211

... Item Transaction Inquiry ...

Item Number. . . . 30111320 From Date/Period 12/11/04
RET PH METER PER PUCO 1981 Thru Date/Period 12/09/05
Account Number 220205.108145 Book (Ledger Ty) AA
AD UPIS-Orig Cost-Not Classifd Subldgr/Ty(*=All)

DT	Document	Date	Explanation	Debit	Credit	P
AD	30216225	09/09/05	FASTR - DISPOSAL F	1,259.54		P
			----- Account Balances -----			
			Ledger Total	1,259.54		
			Y-T-D Period End	1,259.54		
			Cumul Period End	1,259.54		

..... F4=Full Detail, F24=More Keys

PUCO 12-001 Update

**DATA INFORMATION REQUEST
Ohio-American Water Company
CASE NO. 11-4161-WS-AIR**

Requested By: Judy Sarver, PUCO - Judy.Sarver@puc.state.oh.us – 614-466-7471
Date Requested: 8/29/11
Date Response Provided: 9/12/11
Date Response Supplemented: 10/31/11
Responsible Witness: Gary M. VerDouw

Information Requested:

Please provide the breakdown of account 186, Deferred Depreciation on Schedule B-6 in the amount of \$129,945 by project, by original cost, balance as of 4/30/2011, by amortization period, by yearly amount, and by case number approved by the Commission.

Information Provided:

Please see the attached file "PUCO 12-001 R-1.xlsx". The Company is continuing to research the items where a specific order and opinion reference has not been provided. Due to the age of those items, and a lack of records dating back to that era, research for the specific opinion and order is progressing slowly. This response will be updated once those specific order and opinions are found.

Attachment: [PUCO 12-001 R-1.xlsx](#)

Supplemental Response:

Specific entry and opinions have been located to support the line items that did not include such support in the original submission of this data request. Please see the attached file below for project number and relative rate order supporting each line item.

Attachment: [PUCO 12-001 R-1 Supplemental.xlsx](#)

RE: Response to PUCO 12-001 for your review

Melissa L. Thompson to Gary.Verdouw@amwater.com 10/18/2011 03:47 PM
Cc "Susan.Schneider@amwater.com", "Mark A. Whitt", "Donald.Petry@amwater.com"

RE: Response to PUCO 12-001 for your review

Melissa L. Thompson to Gary.Verdouw@amwater.com

I think I have found the case number for the items missing in DR 12-001 R1. I would appreciate a second set of eyes, especially since the beginning balances for the projects listed in PUCO 12-001 R1 do not match the balances listed in OAW's attached Application and Motion.

Based on a review of OAW's older files, I believe all outstanding items were approved in Case No. 92-1801-WW-AAM. OAW's Application requested deferred depreciation for seventeen projects, including the following listed in Exhibit A:

- Project No. 92-1: Clearwell improvements-93
- Project No. 92-1: Clearwell improvements-94
- Project No. 1-A5: Symmes Creek
- Project No. A2: Distribution Piping to Tank
- Project No. A8: Dev. .8MG addtl. Gr. Water supply

The Commission granted deferred depreciation for fifteen out of seventeen projects in its initial January 7, 1993 Entry, except for Project A8 and another project. On September 27, 1995, OAW moved to substitute Project A8 and the other rejected project for four approved but delayed projects. Exhibit B-1 to the Motion to Substitute lists the Clearwell, Symmes Creek and Distribution Piping projects. Exhibit B-2 to the Motion lists the Tiffin Ground Water Supply project and its proposed costs. The Commission granted the substitution of projects in its November 2, 1995 Entry.

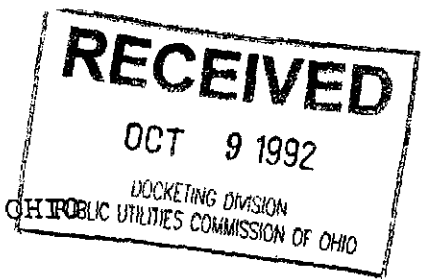
Once you or your staff reviews these documents, let me know whether you agree with my analysis.

Regards,
Melissa

Melissa L. Thompson
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(614) 506-6122 (Mobile)
(614) 365-9145 (Facsimile)

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO



In the Matter of the Application)
of Ohio-American Water Company)
for Approval of Accounting Changes)
with Respect to Post-In-Service)
AFUDC Carrying Charges and)
Deferral of Depreciation for ')
Various EPA- and PUCO-driven)
Construction Projects.)

Case No. 92-*RD*-WW-AAM

APPLICATION

NOW COMES Applicant, Ohio-American Water Company ("Ohio-American" or "Company") and respectfully applies to the Public Utilities Commission of Ohio ("Commission") for approval of accounting treatment to permit the accrual of post-in-service AFUDC and deferral of depreciation expenses as described more fully below pursuant to Ohio Revised Code ("R.C.") Sections 4905.15, 4905.17 and 4905.18 with respect to eighteen (18) construction projects necessitated by Commission and Ohio Environmental Protection Agency ("OEPA") requirements.

Ohio-American is in the process of constructing or has planned to construct by 1996 seventeen (17) major water treatment, storage, and distribution facility projects in each of the four Ohio-American Districts. Attached as Exhibit A to this application is a list of the projects, the total cost of each, and the expected in-service date. The total amount of capital outlay is estimated to be \$11,048,079.

A detailed description of each project appears in the Comprehensive Planning Study, containing the proposed five-year construction program for Ohio-American. The construction program has been approved by its Board of Directors and was reviewed by

the Staff in Ohio-American's most recent rate case, Case No. 91-1318-WW-AIR (Opinion and Order, June 4, 1992). The Staff had found the Company's planning process, including the Planning Study, to be adequate (Staff Report of Investigation, March 19, 1992), and the Commission ordered no change in the construction program except those projects associated with Lawrence County District, which the Company and Staff agreed to accelerate. That agreement is reflected in the projects proposed in this application. The construction program is reviewed at least annually and subject to revisions in the timing and cost of projects, pending approval by Ohio-American's Board of Directors. The projects themselves have already been approved by the Board of Directors. The construction projects as shown on Exhibit A reflect the timing and scope of EPA- and Commission-driven construction projects based on the Company's most recent engineering review and estimates of the implementation deadlines of the EPA.

Ohio-American is proposing that the Commission consider the projects in a single application for several reasons. First, the projects are either already under construction or are projects to which the Company has made firm commitment, largely because they are prioritized as a result of and in direct response to the Commission's minimum service standards and compliance deadlines for rules of the OEPA. The commitments, therefore, have made the financial consequences of such projects more certain. Considering the projects together means that the time and effort

invested both by the Company's staff and counsel in preparing the application for accounting authority and by the Staff of the Commission and the Commission in reviewing and ruling on the separate projects is reduced from seventeen times to one. These are regulatory costs the Company (and the Commission) and, hence, Ohio-American's customers will not have to bear unnecessarily.

As has been the case in previous proceedings, the property basis for the post-in-service AFUDC and deferred depreciation expense is net of utility plant included in current rates which will be retired upon completion of these projects.

Without post-in-service AFUDC carrying charges treatment, the Company will not have the opportunity to recover those carrying charges, which will amount to \$554,119.00 for the seventeen projects and are legitimate costs associated with the construction projects. Pursuant to the Commission's past practice, Ohio-American proposes to segregate these carrying charges during this period in separate sub-accounts for internal control purposes as well as to facilitate Commission review. This request is consistent with treatment authorized by the Commission in Ohio-American Water Company, Case Nos. 91-613-WW-AAM and 90-1871-WW-AAM; Dayton Power & Light, Case No. 82-858-EL-AAM; Ohio Edison, Case No. 82-1185-EL-AAM; and in the applications of Toledo Edison Company, Ohio Edison Company, and Cleveland Electric Illuminating Company in Case Nos. 87-1270-EL-AAM, 87-984-EL-AAM, and 87-1269-EL-AAM, respectively.

Ohio-American proposes to calculate this post-in-service AFUDC using a moving twelve-month average of the prime rate. This will allow the rate to be updated each month and avoid locking into an AFUDC rate now which will impact a multiple year period. The twelve-month average prime rate through August 31, 1992 is 6.66%.

Ohio-American also requests that the Commission grant it authority to defer the depreciation expense for the new plant from the in-service date until the date that the plant is reflected in rates consistent with FAS 71. This authority would permit Ohio-American to book the depreciation expense, net of depreciation expense on plant being replaced, in a deferred asset account from the in-service date until Ohio-American's next rate proceeding, in which it would request rate recognition of the costs associated with the new plant.

WHEREFORE, Ohio-American respectfully requests the Commission to approve the accounting change to permit post-in-service AFUDC carrying charges and the recording of the depreciation expense in a deferred asset account with respect to the projects identified on Exhibit A.

Respectfully submitted on behalf of
OHIO-AMERICAN WATER COMPANY



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ACLI173D

OHIO-AMERICAN WATER COMPANY
NET PLANT FOR POST-IN-SERVICE
AFUDC AND DEFERRED DEPRECIATION
CALCULATIONS

District	Project	REQUIRED BY		In-Service Date	Total Cost	Related Retirement	Cost of	
		EPA	PUCO				Removal Included in Total	Net Cost
Ashtabula	92-1 Clearwell improvements-93	X		31-Jul-93	\$381,426	(\$4,890)		\$376,536
	92-1 Clearwell improvements-94	X		31-Jul-94	350,003	(4,890)		345,113
	92-4 Replace filters	X		31-Dec-96	2,546,002	(96,534)		2,450,268
	A8 Dist. impr. in Kingsville & Ash. Township		X	31-Aug-95	816,702			816,702
Laurence Co.	92-5 Burlington booster	X	X	30-Nov-92	108,300			108,300
	1-A5 Symmes Creek		X	31-Oct-92	102,000			102,000
	A2 Distribution Piping to Tank	X	X	30-Sep-94	335,955			335,955
	A3 Construct .6 MG Tank	X	X	31-Oct-96	641,681			641,681
Marion	92-7 Filter improvements	X		28-Feb-96	1,155,498	(55,879)		1,074,619
	A6 Trans. and fire flow in SW Marion		X	31-Aug-95	470,720	(8,324)		462,396
	A7 Clarifier improvement	X		30-Jun-98	303,626	(13,467)	(\$25,000)	290,159
Tiffin	A5 Distribution improvements		X	30-Nov-92	338,500			338,500
	A4 Replace plant valves, meter improv.	X		30-Nov-92	106,531	(652)		105,879
	A1 Treatment plant improvements	X		30-Jun-94	2,218,960	(53,836)	(35,000)	2,130,124
	A6 Wash water recycle tank	X		31-Oct-95	368,277	(20,261)		348,016
	A10 Install 3500', 16" @ Fall St. & 4th		X	31-Jul-93	440,617	(908)		439,709
	A8 Dev. .8MG addtl. gr. water supply	X		30-Jun-99	362,481			362,481
Totals					\$11,048,079	(\$259,641)	(\$60,000)	\$10,728,438

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
of Ohio-American Water Company for)
Approval of Accounting Changes with)
Respect to Post-In-Service Carrying) Case No. 92-1801-WW-AAM
Charges and Deferral of Depreciation)
for Various EPA and PUCO driven)
Construction Projects.)

ENTRY

The Commission finds:

- (1) The Applicant, Ohio-American Water Company (Ohio-American), an Ohio Corporation, is a public utility and waterworks company in accordance with the terms of the Revised Code Sections 4905.02 and 4905.03(A)(8), respectively, and is subject to the jurisdiction of this Commission.
- (2) On October 9, 1992, Ohio-American filed an application requesting that the Commission authorize accounting modifications which would allow it to accrue and capitalize carrying charges from the in-service date until the projects are reflected in rates for seventeen construction projects during the period January 1, 1992, to December 31, 1996. Ohio American also requests permission to defer the depreciation expense associated with the new projects during this period. Ohio-American is in the process of constructing or plans to construct by 1996 seventeen water treatment, storage and distribution facility projects in each of its four districts. The projects are prioritized as a result of, and in direct response to, the Commission's service standards and compliance deadlines for rules of the Ohio EPA. Since the projects are already underway or are projects to which Ohio-American has made a firm commitment and the time and effort invested by Ohio-American and the Staff in preparing, reviewing, and ruling on the projects would be reduced from seventeen to one, Ohio-American is proposing that the Commission consider the projects in a single application. Attached to the application as Exhibit A is a list of the projects, the total cost of each, and the expected in-service dates. Each of these seventeen projects are described in detail in Ohio-American's Comprehensive Planning Study which was reviewed in its most recent rate case, Case No. 91-1318-WW-AIR. The estimated cost of the projects through 1996, net of related retirements, is \$10,381,972, which represents 31.27% of Ohio-American's projected rate base.
- (3) Section 4905.13, Revised Code, authorizes the Commission to establish a system of accounts to be kept by the public utilities of Ohio and to prescribe the manner in which these accounts shall be kept. In Chapter 4901:1-15-14, Ohio Administrative Code, the Commission adopted the Uniform

System of Accounts for water utilities that was prepared and published by the National Association of Regulatory Utility Commissioners in 1973.

- (4) The Staff has reviewed the application filed by Ohio-American and recommends that the application be granted to the extent discussed below. This Entry addresses only the accounting modifications and does not address the treatment of such items for ratemaking purposes. Any issues as to the treatment for ratemaking purposes should be deferred to Case No. 92-2299-WW-AIR and subsequent rate case proceedings.
- (5) Ohio-American has requested post-in-service carrying charges and deferred depreciation for the seventeen projects listed on Exhibit A of its application. Further, Ohio-American states in its application that these seventeen projects for which it is requesting post-in-service carrying charges and deferred depreciation will be completed by the end of 1996. Two of the projects, MAR-A7, Clarifier Improvements, and TIF-A8, Develop .8mg Additional Ground, have expected in-service dates well beyond the end of 1996. The MAR-A7 project has an in-service date of June 30, 1998, while the TIF-A8 project has an in-service date of June 30, 1999. The Staff recommends that the Commission not grant the accrual of post-in-service carrying charges or the deferral of depreciation for these two projects. The Staff suggests that Ohio-American relook at filing for post-in-service carrying charges and deferred depreciation for these two projects closer to in-service dates.
- (6) Ohio-American proposes that the cost basis for accrual of post-in-service carrying charges be the cost of the projects, net of utility plant included in current rates which will be retired upon completion of the projects. The Staff agrees and recommends that the accrual of carrying charges after the in-service dates for the fifteen recommended projects be calculated on the net of the accumulated construction costs less the net plant currently included in rates to be retired.
- (7) Ohio-American proposes to calculate the post-in-service carrying charge using a moving twelve-month average of the prime rate. The Staff recommends that the post-in-service carrying charge rate be based upon Ohio American's embedded interest cost rate. Deferred taxes should be provided for the carrying charges in Account 283, Accumulated Deferred Income Taxes - Other, such that the net amounts recorded equate to the effect of net of tax carrying charges.
- (8) Ohio-American proposes to segregate the carrying charges in a separate sub-account for purposes of Commission review in the next Ohio-American rate proceeding. The Staff agrees and recommends that the post-in-service carrying charges should

be identified and segregated in special sub-accounts of the plant accounts until such amounts are reviewed and verified by the Commission's Staff. The Staff further recommends that the carrying charges not be subject to compounding and that accrual of the post-in-service carrying charges cease the day prior to the effective date of new rates which reflect the projects in rate base.

- (9) Ohio-American has also requested authorization to defer the depreciation expense on the projects, net of depreciation and amortization expense on plant being replaced, from the in-service date until the day that the projects are reflected in rates. The Staff recommends that the deferral of depreciation expense be net of the depreciation expense on the plant to be retired, that the deferred depreciation be recorded in a separate subaccount of Account 186, Miscellaneous Deferred Debits, and that the deferral of depreciation expense cease the day prior to the effective date of new rates in which the projects are reflected. The Staff further recommends that the deferred depreciation expense not accrue carrying charges.

- (10) Furthermore, the Staff recommends that the accounting modifications discussed herein not result in Ohio-American earning an annual return on common equity which exceeds the most recent or subsequently Commission authorized returns on equity. In the event this would occur, Ohio-American should cease or reduce the accrual of post-in-service carrying charges such that the authorized return is not exceeded.

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The Staff also recommends that Ohio-American notify the Commission if there is a delay in the in-service dates of six months or more and/or a change in construction dollars of 5 percent or more on any individual project listed on Exhibit A for which post-in-service carrying charges and deferred depreciation were recommended.

- (11) Inasmuch as this is an accounting Entry which grants authority for Ohio-American to accrue carrying charges past the in-service dates and to defer depreciation expense for booking purposes only and does not address the ratemaking treatment of such items, the Commission finds that the Staff's recommendations in Findings (4) through (10) are reasonable and that they will not result in an increase in rates currently in effect. Hence, the Commission is satisfied that the application of Ohio-American to modify its accounting procedures to accrue post-in-service carrying charges and to defer depreciation expense on its projects should be granted to the extent provided above.

It is, therefore,

ORDERED, That the application of Ohio-American Water Company for authority to accrue post-in-service carrying charges and to defer depreciation expense for fifteen construction projects expected to be placed in-service between January 1, 1992, and December 31, 1996, is approved, as discussed in Findings (5) through (10), above. It is, further,

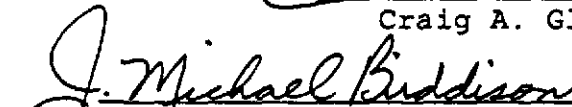
ORDERED, That Ohio-American Water Company shall notify the Commission if there is a significant change in either the in-service date or the construction costs of any of the fifteen projects, as discussed in Finding (10), above. It is, further,

ORDERED, That nothing contained in this Entry shall be deemed binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

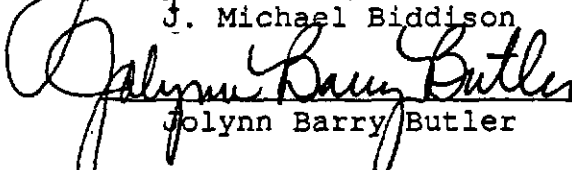
ORDERED, That a copy of this Entry be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO


Craig A. Glazer, Chairman


J. Michael Biddison


Ashley C. Brown


Jolynn Barry Butler


Richard M. Fanelli

BA:tv

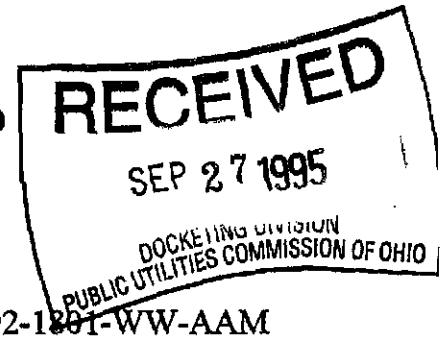
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JAN 07 1993

A True Copy


Gary E. Vigofito
Secretary

**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**



In the Matter of the Application of Ohio-American)
Water Company for Approval of Accounting)
Changes with respect to Post-In-Service Carrying)
Charges and Deferral of Depreciation for Various)
EPA and PUCO Driven Construction Projects)

Case No. 92-1861-WW-AAM

MOTION TO SUBSTITUTE PROJECTS

Ohio-American Water Company ("Ohio-American" or "Company") moves the Public Utilities Commission of Ohio ("Commission") to approve the substitution of several projects for accrual of post-in-service AFUDC and deferral of depreciation expenses in the place of others which have already been approved for this treatment for reasons that are given in the memorandum below.

MEMORANDUM IN SUPPORT

On October 9, 1992 Ohio-American filed an application with the Commission pursuant to Ohio Revised Code ("R.C.") Sections 4905.13, 4905.15, 4905.16 and 4905.18 for approval of accounting treatment to permit the accrual of post-in-service AFUDC and deferral of depreciation expenses for specific projects described in its application. On January 7, 1993, the Commission in its Finding and Order in this proceeding approved the application to accrue post-in-service carrying charges and to defer depreciation expense for fifteen construction projects which had been projected to be placed in service between January 1, 1992 and December 31, 1996. The Finding and

Order also directed Ohio-American to notify the Commission of any significant change in the in-service date or the construction costs of the projects. In letters directed to the Commission's staff on January 22, 1993, August 3, 1993, April 13, 1994 and July 19, 1995, Ohio-American representatives set forth various changes that had occurred with respect to the fifteen approved projects.

As the caption of this application states, the fifteen projects were those that are driven by Ohio Environmental Protection Agency ("Ohio EPA") requirements and also, to a lesser extent, by Commission requirements. Since the approval of the projects in early 1993, the Company has continued discussions with officials of the Ohio EPA about certain of these projects, both with respect to the new facilities to be constructed to meet the Ohio EPA objectives and with respect to the timing of the construction of projects. Primarily as a result of these discussions, the Company was able to defer the construction of several projects. However, because of unforeseen circumstances, other projects which had been planned for construction on dates after December 31, 1996, are now required to be completed earlier. Full description of those projects which have been previously approved, but now require deferral, as well as those projects that have not previously been approved but now require an accelerated in-service date are given on Exhibit A attached to this motion.

Ohio-American believes that the circumstances set forth in Exhibit A are compelling and merit the Commission's approval of the new projects to be substituted projects for some of those originally approved in the Company's application of October 9,

1992 and for the deferral of those originally approved projects which now require deferral. Tables setting forth the status of each of the projects approved by the Finding and Order of January 7, 1993 is given on Exhibit B-1 attached to this motion. Exhibit B-2 is a table depicting the substitutions and deferrals that the Company requests the Commission to approve. When the Commission originally approved the projects requested in the application, it declined to approve two projects that were projected to be placed in service by June 1998 and June 1999, respectively. In declining to approve these projects the Commission noted that these projects were "well beyond the end of 1996" which was the date by Ohio-American had anticipated that all the other requested projects were to be completed. For reasons that were given in the letters to the staff subsequent to the Finding and Order of January 7, 1993, several projects were deferred beyond the originally scheduled in-service dates. Ohio-American is now requesting substitutions for projects that must now be deferred until the end of 1998 and 1999 and substituting for them projects that will be completed no later than 1997.

As Exhibit B-1 shows, the aggregate amount to be substituted, \$3.9 million, is in the range of the \$4.2 million, the aggregate projected construction cost of the projects to be deferred. Thus the financial considerations and tests that led the Commission to approve the original projects remain approximately the same if the proposed projects are substituted and the previously approved projects are deferred.

Wherefore, for all the reasons given in this motion and Exhibit A, Ohio-American urges the Commission to permit the substitution of the three projects shown on Exhibit B-2 for the four previously approved projects and to defer the four previously approved projects.

Respectfully submitted on behalf of
OHIO-AMERICAN WATER COMPANY

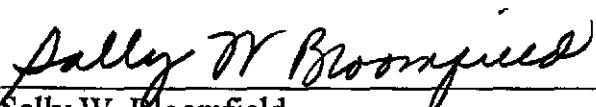

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EXHIBIT A

DELAY OF IN-SERVICE DATES, DEFERRALS REQUESTED:

Ashtabula District -- 92-4 Project No. 3, replace filters:

Originally as proposed, this project was part of one to renovate completely the Ashtabula treatment facilities which are more than 100 years old. Investigation revealed that from a structural engineering point of view, rehabilitation was either impractical, or in some cases impossible. Construction of additional filter units was proposed at the most cost effective alternative. However after this investigation was complete, the Company experienced significantly reduced demand, primarily due to large industry closings. Coupled with that fact, the Company has been able to continue to produce high quality water that meets or exceeds state and federal EPA guidelines for longer than originally contemplated. However, with the recently approved contract to provide Ohio Consumers Water Company with more than 1.5 MGD (Case No 94-1535-WW-AEC, approval given in Finding and Order issued on December 29, 1994), new filter units must now be considered and design work is scheduled to commence in 1996 with completion of the project expected by the end of December, 1998.

Ashtabula District -- A8, Project No. 4, Distribution Improvements in Kingsville and Ashtabula Township

This project was originally proposed because of anticipated industrial, commercial and residential growth in the Kingsville area. However, actual growth has occurred in other areas rather than in this area, a factor that justifies deferral of it until there is greater growth. It is anticipated that this project could be deferred for at least four years.

Marion District -- 92-7, Project No. 10, filter improvements:

The need to comply with Ohio EPA requirements originally made these filter improvements necessary. However, the Company has had many discussions with representatives of the Ohio EPA and was able to persuade the agency that the Company's current operating conditions satisfied state and federal regulations and guidelines. This factor has permitted the Company to postpone the bulk of this project from an in-service date of March 1, 1996 until the first of November, 1999.

Marion District -- A6, Project No. 11, transmission lines and fire flow, southwest Marion:

This project was originally proposed because of anticipated industrial, commercial and residential growth in the southwest quadrant of the city. However, actual growth has occurred in other areas of the city. Therefore the Company can defer this project from August of 1995 until the end of December, 1999. However, potential residential and industrial development southwest of Marion may expedite the need for this project at an earlier date.

PROPOSED PROJECTS TO BE SUBSTITUTED FOR THE DEFERRED PROJECTS:

Marion District -- 95-03, Project No. 13, Marion water treatment plant improvements:

Originally proposed as the replacement of the relay and distribution pumping stations Marion Treatment Plant. The current project includes the replacement and upgrade of high service pump no 7. This component is required at this time because of increased commercial demands, primarily the new Marion Correctional Institution. Also the existing pump has deteriorated to the point where it cannot be repaired properly. The project also includes the replacement of three of the low service or transfer pumps as well as the structure for housing the pump. These must be replaced because they have reached the end of their useful lives and cannot be repaired. Their replacements will render the same total capacity. A third component of the project involves bringing the bulk chemical storage and feed equipment up to current American Water Works Company standards. The current chemical storage and feed equipment do not meet the current standards related primarily to the safety of workers, the public and the environment.

Tiffin -- 94-2, Project No. 19, 1.0 million gallon elevated tank and booster station:

This project involves the installation of a one million gallon elevated storage tank and a new booster station at the location of the existing Highland Avenue tank. The project also includes increasing the head capacities of the existing high service pumps at the main plant. These upgrades are necessary to increase the hydraulic gradient in the southwest part of the Tiffin distribution system. The current heads are not adequate to consistently maintain the minimum required pressure for that portion of the district.

Tiffin --A 8, Project No. 20, Development of 0.8 million gallon additional ground water supply:

This project involves locating future potential sources of ground water supply for the entire Tiffin district and the expeditious development of up to 0.8 million gallons per day of ground water supply to augment the surface water supply during periods of high runoff into the river. During these times, the Company has experienced high levels of turbidity and nitrates. New wells will allow a blending of ground water and surface water. The additional ground water supplies will assist in consistently producing water well within current drinking water standards. This action is necessary to meet surface water treatment regulations of the Ohio EPA.

NET PLANT FOR POST-IN-SERVICE AFUDC APPROVED BY PUCO

Projects as approved in Case No. 92-1801-WV-AAM
with deferral dates beyond 1997 shown as shaded

PROJ NO	CPS # OR BPS	PROJECT	Required By EPA & PUCO	Original Proposed In-Service Date	Revised Proposed In-Service Date	Actual In-svc. Date	Original Proposed Total Cost	Revised Proposed Total Cost	Actual Comp. Cost	Original Proposed Related Retire.	Cost of Removal Included in Total	Original Proposed Net Cost	Revised Proposed Net Cost	Actual Comp. Net Cost
ASHTABULA														
1	92-1	Clearwell Improvements-93	X	31-Jul-93		07-93	\$381,426	31,000	49,743	(4,890)	-	\$376,536		49,743
2	92-1	Clearwell Improvements-94	X	31-Jul-94		12-94	350,003	255,000	233,366	(4,890)	7,000	345,113	325,413	213,666
3	93-4	Replace Filters	X	31-Dec-96	31-Dec-98		2,546,302	2,498,000		(96,302)		2,450,268	2,401,666	
4	A3	Dist. Improv. in Kingsville A												
		Asht. Twp.	X	31-Aug-95	31-Dec-99		816,702	847,000				816,702	847,000	
LAWRENCE COUNTY														
6	92-5	Burlington Booster	X	30-Nov-92		12-92	108,300		79,998			108,300		79,998
7	1A-5	Synnes Creek	X	31-Oct-92		11-92	102,000		104,200			102,000		104,200
8	A2	Distribution Piping to tank	X	30-Sep-94		12-94	335,955		549,414			335,955		549,414
9	A3	Construct .6 MG Tank	X	31-Oct-96			641,681	662,000				641,681	662,000	
MARION														
10	92-7	Filter Improvements	X	28-Feb-96	31-Oct-99		1,155,493	1,086,000		(53,879)	(25,000)	1,074,619	1,024,121	
11	A6	Trans. & Fire Flow SW Marion		31-Aug-93	31-Dec-99		470,720			(8,124)		462,596		
TIFFIN														
14	A5	Distribution Improvements	X	30-Nov-92		12-92	338,500		343,131			338,500		343,131
15	A4	Rep plant valves, meter improv	X	30-Nov-92		12-92	106,531			(652)		105,879		
16	A1	Treatment Plant Improvements	X	30-Jun-94		03-95	2,218,960			(53,836)	(35,000)	2,130,124		
17	A6	Wash Water Recycle Tank	X	31-Oct-95	31-Dec-97		368,277	1,300,000		(20,261)		348,016	1,279,739	
18	A10	Install 3500-16" @ Wall St. & 4th	X	31-Jul-93		09-93	440,617			(908)		439,709		
TOTAL*													10,692,586	

* Total shown reflects the total of the best available "net cost" figures.

OHIO-AMERICAN WATER COMPANY
NET PLANT FOR POST-IN-SERVICE AFUDC

EXHIBIT B-2

PROJ NO	CPS # OR BFS	PROJECT	Required By EPA FUCO	Original Proposed In-Service Date	Revised Proposed In-Service Date	Actual In-svc. Date	Original Proposed Total Cost	Revised Proposed Total Cost	Actual Comp. Cost	Original Proposed Related Retire.	Revised Proposed Related Retire.	Cost of Removal Included in Total	Original Proposed Net Cost	Revised Proposed Net Cost	Actual Comp. Net Cost
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PROJECTS TO BE DEFERRED

ASHTABULA

3	92-4	Replace Filters	X	31-Dec-96	31-Dec-98		2,546,802	2,498,000		(96,534)	(96,534)		2,450,268	2,401,466	
4	A8	Dist. Impr. in Kingsville & Ash Twp.		31-Aug-95	31-Dec-99		816,702	847,000					816,702	847,000	

MARION

10	92-7	Filter Improvements	X	28-Feb-96	31-Oct-99		1,155,498	1,080,000		(55,879)	(55,879)	(25,000)	1,074,619	1,024,121	
11	A6	Trans. & Fire Flow SW Marion		31-Aug-95	31-Dec-99		470,720			(8,324)			462,396		

DEFERRED TOTAL* 4,272,587

PROPOSED PROJECTS TO BE SUBSTITUTED

MARION

13	95-03	Marion WTP Improvements	X		31-Dec-97			1,500,000						1,500,000	
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TIFFIN

19	94-2	1.0 M.G. Elev Tank & Booster Sta			30-Jun-96			2,015,000						2,015,000	
20	A8	Dev. 8 MG additl. ground wtr sup.	X	30-Jun-99	30-Nov-95		362,481	450,000					362,481	450,000	

SUBSTITUTION TOTAL 3,965,000

* Total shown reflects the total of the best available "net cost" figures.

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application)
of Ohio-American Water Company for)
Approval of Accounting Changes with)
Respect to Post-In-Service Carrying) Case No. 92-1801-WW-AAM
Charges and Deferral of Depreciation)
for Various EPA and PUCO Driven)
Projects.)

ENTRY

The Commission finds:

- (1) The Applicant, Ohio-American Water Company (Ohio-American), an Ohio corporation, is a public utility and waterworks company in accordance with the terms of the Revised Code Sections 4905.02 and 4905.03(A)(8), respectively, and is subject to the jurisdiction of this Commission.
- (2) On October 9, 1992, Ohio-American filed an application requesting that the Commission authorize accounting modifications which would allow it to accrue and capitalize carrying charges and defer depreciation expense on construction projects with in-service dates between 1992 and 1996. Ohio-American proposed to accrue carrying charges and defer depreciation from the various in-service dates until the projects are reflected in rates.
- (3) In its January 7, 1993 Entry in this case, the Commission authorized Ohio-American to accrue and capitalize post-in-service carrying charges and to defer depreciation expense on fifteen of the seventeen projects. The two projects which were not authorized had projected in-service dates well beyond the end of 1996.
- (4) On September 27, 1995, Ohio-American filed a motion to substitute projects for four of those projects which had been authorized the accounting modifications above. In its supporting memorandum to the motion to substitute, Ohio-American states that subsequent to the authorization for the fifteen projects, discussions continued with the Ohio EPA regarding both the facilities to be constructed and the timing of the construction of the facilities. Primarily as a result of those discussions, Ohio-American was able to defer the construction of several projects. However, other projects which had been planned for construction subsequent to 1996 are now required to be completed earlier. Therefore, Ohio-American now requests that three projects, which will be completed no later than

1997, be substituted for those previously approved for post-in-service carrying charges and depreciation deferral which will now be delayed until 1998 or 1999.

- (5) The projects which will be delayed are Project 92-4, filter replacement in the Ashtabula District; Project A-8, distribution improvements in the Kingsville area and Ashtabula Township; Project 92-7, filter improvements in the Marion District; and Project A-6, transmission line and fire flow in southwest Marion. The projects proposed to be substituted are Project 95-03, Marion water treatment plant improvements; Project 94-2, 1.0 million gallon elevated tank and booster station in the Tiffin District; and Project A-8, development of 0.8 million gallon additional ground water supply in the Tiffin District. The estimated net cost of the proposed substitute projects is \$3,965,000 compared to the revised estimated net cost of the delayed projects of \$4,272,587 (originally, the estimated net cost was \$4,803,985).
- (6) The Staff has reviewed the motion to substitute of Ohio-American and recommends that, for Project A-8, development of 0.8 million gallon additional ground water supply in the Tiffin District, it be approved. The project substituted should be subject to the same conditions and requirements as those placed upon the accrual of post-in-service carrying charges, depreciation deferral, and notification of significant changes in either the in-service date or the construction costs for the fifteen projects as discussed in the January 7, 1993 Entry in this case.
- (7) For Project 95-03, Marion water treatment plant improvements and Project 94-2, 1.0 million gallon elevated tank and booster station in the Tiffin District, the Staff recommends that the motion to substitute not be granted in the instant application. Since the Applicant has a pending rate case before this Commission, the issue of accrual of post-in-service carrying charges for these two projects should be discussed therein.
- (8) The Staff further recommends, should Ohio-American decide to pursue accrual of post-in-service carrying charges and/or deferral of depreciation expense on the four delayed projects being substituted for herein, that they do so closer to the expected in-service date and through separate application(s), rather than through motions to substitute projects in the instant case.

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- (9) This Entry addresses only the substitution of projects authorized accounting modifications and does not address the treatment of such items for ratemaking purposes. Any issues as to the treatment for ratemaking purposes should be deferred to Ohio-American's future rate case proceedings.
- (10) Inasmuch as this is an entry which grants Ohio-American authority to substitute a project for accrual of post-in-service carrying charges and deferral of depreciation expense for booking purposes only, and does not address the treatment of such items for ratemaking purposes, the Commission finds that the Staff's recommendations are reasonable, that they will not result in an increase in rates currently in effect, and that they should be approved.

It is, therefore,

ORDERED, That the motion of Ohio-American Water Company to substitute projects for those previously authorized to accrue post-in-service carrying charges and to defer depreciation expense is approved for Project A-8, development of 0.8 million gallon additional ground water supply in the Tiffin District, and denied for Project 95-03, Marion water treatment plant improvements, and Project 94-2, 1.0 million gallon elevated tank and booster station in the Tiffin District, as discussed in Findings (5) through (8), above. It is, further,

ORDERED, That nothing contained in this Entry shall be deemed binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule or regulation. It is, further,

ORDERED, That a copy of this Entry be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO

Craig A. Glazer, Chairman

Jolynn Barry Butler

Richard M. Fanelly

Ronda Hartman Ferguson

Entered in the Journal

NOV 2 1995

A True Copy

Gary D. Vigorito
Secretary

MAC:clh

