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A report by the Staff of the
Public Utilities Commission of Ohio

Waterville Gas and Oil Company
Case No. 07-0194-GA-AIR



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STAFF'S REPORT
OF
INVESTIGATION

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

Submitted
to
The Public Utilities Commission

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Waterville)
Gas & Oil Company for Authority to Amend) Case No. 07-194-GA-AIR
Its Filed Tariffs to Increase the Rates and)
Charges for Gas Service and Related Matters.)

Alan R. Schriber, Chairman
Paul A. Centolella, Commissioner
Ronda Hartman Fergus, Commissioner
Valerie A. Lemmie, Commissioner
Donald L. Mason, Commissioner

To The Honorable Commission:

In accordance with the provisions of R.C. Section 4909.19, the Commission's Staff has conducted its investigation in the above matter and hereby submits its findings in the within Staff Report.

The Staff Report of Investigation has been prepared by the Commission's Utilities Department and Service Monitoring and Enforcement Department.

In accordance with R.C. Section 4909.19, copies of the Staff Report have been filed with the Docketing Division of the Commission and served by certified mail upon the mayors of all affected municipalities and other public officials deemed representative of the service area affected by the application. A copy of said report has also been served upon the utility or its authorized representative. Interested parties are advised that written objections to any portion of the Staff Report must be filed within thirty (30) days of the date of the filing of said report after which time the Commission will promptly set this matter for public hearing. Written notice of the time, place, and date of such hearing will be served upon all parties to the proceeding.

The Staff Report is intended to present for the Commission's consideration the results of the Staff's investigation. It does not purport to reflect the views of the Commission nor should any party to said proceeding consider the Commission as bound in any manner by the representations or recommendations set forth therein. The Staff Report, however, is legally cognizable evidence upon which the Commission may rely in reaching its decision in this matter. (See Lindsey, et. al. v. PUC, 111 O.S. 6)

Respectfully submitted,

Utilities Department

A handwritten signature in black ink, appearing to read "Steve Brennen", written over a horizontal line.

Steven R. Brennen
Director

Service Monitoring and Enforcement Department

A handwritten signature in black ink, appearing to read "Doris E. McCarter", written over a horizontal line.

Doris McCarter
Director

STAFF ACKNOWLEDGEMENTS

The Staff Report components reflect the results of investigations conducted by the Staff of the Applicant's rate application. The Staff person responsible for each component is shown below:

Utilities Department

Operating Income and Rate Base	Ross Willis
Rate of Return	Steve Chaney
Rates and Tariffs	Chuck Goins

Service Monitoring and Enforcement Department

Reliability and Service Analysis Division	Peter Baker
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BACKGROUND

The Applicant, The Waterville Gas & Oil Company, is an Ohio corporation and a public utility incorporated on July 10, 1888, under the laws of the State of Ohio. The Applicant provides natural gas service to approximately 5,420 customers, 3,324 of whom are customers located in the unincorporated areas of Middleton and Perrysburg Townships and the City of Perrysburg, Wood County, Ohio and Monclova and Waterville Townships in Lucas County.

On February 26, 2007, the Applicant filed a notice of intent to file an application for increase in rates to be charged and collected for providing natural gas service to customers located in the unincorporated areas mentioned above. The Applicant requested that the test year period begin January 1, 2006, and end December 31, 2006, and that date certain be December 31, 2006. The Commission approved the requested test year and date certain in its Entry dated March 21, 2007.

The Applicant filed its application on March 30, 2007, seeking Commission approval for an increase to its current rates. The Applicant requested a waiver of the Standard Filing Requirements (SFRs) and requested Commission authority to file an abbreviated application. By Entry issued March 21, 2007, the Commission found the application is in compliance with Standard Filing Requirements and accepted the abbreviated application as of its filing date.

The Applicant's current rates for distribution service were established in Case No.86-431-GA-AIR, and adjusted in Case No.03-2291-GA-ATA. These rates became effective respectively on April 2, 1985 and January 1, 2004.

The Applicant's proposed rates in this proceeding, when applied to test year sales volumes, would generate additional revenues of \$510,107. This is an increase of approximately 45.88% over current operating revenues.

OPERATING INCOME AND RATE BASE

SCOPE OF INVESTIGATION

The scope of investigation for an application filed pursuant to Standard Filing Requirements, Chapter V, Abbreviated Filing, was designed to determine the reliability and reasonableness of the Applicant's test year information concerning operating income, rate base and other data.

The Staff's investigation included a general review of the Applicant's operation through analyses of PUCO annual reports, other compiled data and numerous conversations with the utility operator's representatives. Actual revenues and expenses recorded on the Applicant's records were analyzed for reasonableness and acceptability for ratemaking purposes. The valuation study included a review of the utility plant records of the Applicant. In addition, the existence and the used and usefulness of the assets were verified through physical inspection of the property. Other analyses were performed by the Staff as considered necessary under the circumstances.

REVENUE REQUIREMENT

The Staff's determination of the Applicant's revenue requirement is based on examination of the accounts and records of the Applicant for the twelve months ending December 31, 2006, as summarized in this report and schedules which incorporate the Staff's recommended rate of return, rate base, and adjusted operating income. The revenue increase range and percentage increase over current rates is shown on Schedule A-1.

RATE BASE

The rate base represents the net value of the Applicant's property and other assets as of the date certain, December 31, 2006, which was used and useful in providing gas utility service to its customers, and upon which its investors are entitled to the opportunity to receive a fair and reasonable rate of return. The Staff's analysis of the rate base is divided into Plant In Service, Depreciation, Construction Work In Progress, Working Capital, and Other Rate Base Items.

The Staff's recommended rate base is shown on Schedule B-1. Schedules B-2 through B-6 provides additional support for the Staff's findings.

Plant in Service

The Plant in Service presented by the Applicant is the surviving original cost of the plant which is used and useful in providing gas utility service to the Applicant's customers. The Staff verified the existence and the used and usefulness of the plant by conducting a physical inspection of plant and a review of pertinent data including Annual Reports to the Commission, Applicant's plant ledgers, and prior rate case documents. As a result of its investigation, the Staff is of the opinion that the Applicant's property records can be relied upon for rate making purposes.

Depreciation

Depreciation accounting is the process, which distributes the original cost of depreciable assets, adjusted for net salvage, over the normal life of the property in a systematic and rational manner. The staff's investigation of depreciation is segregated into two areas: Depreciation Reserve, and Depreciation Accrual Rates and the corresponding Depreciation Expense. Each of these is discussed in detail in the following sections.

Depreciation Reserve

The Applicant maintains depreciation reserve, by account, on a total company basis. In order to determine if the Applicant's booked reserve for depreciation is proper and adequate, the Staff generally finds it useful to compare the booked reserve with a calculated theoretical reserve as a guide to whether past accrual rate calculations have been appropriate. The Staff compared the Applicant's total company booked reserve level with a calculated theoretical reserve based on December 31, 2006 plant balances and the Staff's recommended accrual rates discussed below. The Staff determined that the overall booked reserve is in close agreement with the theoretical reserve calculation. Therefore, the Staff is of the opinion that the Applicant's booked reserve as shown on Schedule B-3 is adequate and should be used for the purposes of this proceeding.

Depreciation Accrual Rates and Depreciation Expense

The Applicant's current depreciation accrual rates were prescribed by this Commission in Case No. 86-431-GA-AIR. The Applicant, without Commission authorization, changed its accrual rates in 2002 to correspond to rates set for Ohio Cumberland Gas in Case No. 02-1200-GA-AIR.

The Staff conducted an independent depreciation study utilizing actuarial and simulated methods and judgment to develop its accrual rate parameters based on the straight line whole life method for the Applicant's natural gas plant. The

Staff recommended accrual rates are shown on Schedule B-3.2a. The Staff recommends that the Applicant be ordered to utilize these new accrual rates for book purposes, effective concurrently with customer rates resulting from this proceeding.

The Staff's calculation of depreciation expense, based on the jurisdictional plant in service balances at date certain and the Staff recommended accrual rates discussed above, is shown on Schedule B-3.2.

Construction Work In Progress (CWIP)

The Applicant did not request an allowance for CWIP in this case and, as indicated on Schedule B-4, the Staff recommends none.

Working Capital

Working capital has been generally defined as the average amount of capital provided by investors in the company over and above the investments in plant and other specifically identified rate base items. This bridges the gap between the time expenditures are required to provide service and the time collections are received for the service.

The Staff calculated an allowance for working capital based on the formula approach which has been approved by the Commission in previous cases. Under this method, the expense lag dollars component of working capital represents one-eighth of the adjusted operation and maintenance expense due to the Applicant billing monthly, less one-fourth of adjusted operating taxes. The Staff included the date certain material and supplies component held for normal operation and maintenance. The Staff's calculation of working capital allowance is shown on Schedule B-5.

Other Rate Base Items

As shown on Schedule B-6, the Staff reduced the rate base by the date certain amount of customers' deposits and the deferred taxes resulting from tax accelerated depreciation.

ALLOCATIONS

The jurisdictional service territory affected by this application is the unincorporated portion of the Applicant's entire gas service territory. The Staff believes when possible, rate base and operating expenses should be directly assigned. When a clear distinction of costs is not possible, various allocations are necessary. The Applicant serves the Village of Waterville (The Village) through a contract rate and rural customers living outside the Corporate boundaries of The Village. Therefore, it is necessary to allocate certain costs to The Village to ensure the revenue requirements are sufficient for rendering service to the customers involved in this proceeding. The Staff recommends a five-factor allocation formula based on the weighted average of gross distribution plant, net distribution plant, customers, sales volumes in MCF, and operating revenues. This allocation methodology is similar to an allocation used by the Staff and approved by the Commission in several previous rate cases. The Staff's calculation of the allocation factor is shown on Schedules B-7.

OPERATING INCOME

The Applicant's test year operating income consists of twelve months of actual data covering the period January 1, 2006 to December 31, 2006. The Staff adjusted the Applicant's test year operating income as required to render it appropriate as a basis for setting rates.

The Staff's proforma operating income is the Staff's adjusted test year operating income modified to reflect the Applicant's proposed increase in revenue, and federal income tax.

Schedule C-1 and C-2 present the Staff's determination of operating income. The calculation, methodologies and rationale used to develop the Staff's adjusted and proforma operating income is detailed on Schedule A-1.1, C-1.1, C-3.1 through C-3.20 and C-4.

Proforma Adjustments

Schedule C-1.1 presents an increase in operating revenues based on the Applicant's proposed rates and the number of customers as of date certain.

Current Adjustments

The Staff's recommended adjustments to operating income are as follows:

Base Revenue

The Staff adjusted test year base revenues to reflect customer levels at the end of the test year and adjusted base operating revenues to reflect a normalized two year average MCF consumption per customer. The Staff's adjustment is presented on Schedule C-3.1 and detailed on Schedule C-1.1a.

Moreover, the Staff excluded test year excise tax surcharge revenues because the Applicant is requesting an excise tariff rider in this proceeding. The revenue generated from this rider will not be affected by this process.

Gas Cost Revenue

The Staff eliminated gas cost recovery (GCR) revenue from test year operating revenues. The Applicant is requesting an excise tax tariff rider in this case. Therefore, the need for GCR revenues to be addressed in this base rate proceeding is not necessary. The Staff's adjustment is presented on Schedule C-3.2.

Late Payment Revenue

The Staff adjusted test year late payment revenue to reflect the adjustments to base revenues. The Staff's adjustment is presented on Schedule C-3.3.

Lease Revenue

The Applicant's test year revenue does not reflect revenue associated with a lease. The Staff adjusted test year revenue to include the annualization of a lease between Waterville Gas Company and Waterville Gas and Oil Company. The Staff's adjustment is presented on Schedule C-3.4.

Gas Cost Expense

The Staff eliminated gas cost recovery expenses from the test year in conjunction with the gas cost recovery revenue adjustment discussed above. The Staff's adjustment is detailed on Schedule C-3.5.

Payroll Expense

The Applicant's test year payroll expense included the wages of both hourly and salary Waterville Gas & Oil employees and outside services. The Staff adjusted payroll expense to reflect an increase to hourly employee wages. The Staff also adjusted outside services to exclude contract labor associated with new construction and legal fees associated with customers under special contracts. Moreover, the Staff's adjustment reflects the Staff's jurisdictional allocation factor. The Staff's adjustment is detailed on Schedule C-3.6.

Employee Pensions and Benefits

The Staff annualized employee pensions and benefits to reflect the Applicant's most recent group and hospitalization coverage premiums and to exclude pension costs associated with holiday gift cards from test year operating expenses. Staff's adjustment also reflects the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.7.

Interest on Customer Deposits Expense

Consistent with the treatment of customer deposits as an offset to the rate base, the Staff adjusted test year interest expense associated with these deposits to include a representative amount. Staff's adjustment also reflects the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.8.

Insurance Policies Expense

The Staff adjusted test year life and property insurance policies expense to reflect the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.9.

Rate Case Expense

The Staff requested an estimate of the Applicant's expenses related to this rate case application. The Staff reviewed the Applicant's estimate and believes it is overstated. The Applicant requested a waiver of the Standard Filing Requirements (SFRs) and requested Commission authority to file an abbreviated application. The Applicant stated that foregoing the costs for the necessary outside professional services would result in a lower rate case expense and benefit the utilities customers.

The Staff's adjustment amortizes a reasonable level of rate case expense for an abbreviated filing over five years. The Staff's adjustment is presented on Schedule C-3.10.

The Staff recommends the Commission review the Applicant's revised estimate of this expense, which should be filed as a late filed exhibit, before making a final determination of the appropriate level of rate case expense for use in this proceeding.

Office Supplies and Other Expenses

The Staff adjusted several expense accounts to exclude costs from the test year operating expenses that are non-utility related expenses. Staff's adjustment also reflects the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.11.

Postage Expense

The Staff's adjustments to postage expense reflect an increase in postage for bulk rate mailings. Staff also applied the weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.12.

Supplies Expense

The Staff adjusted test year supplies and expenses expense to reflect the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.13.

Lease Expense

The Applicant's test year operating expense includes two leases. The Staff's adjustment excludes both leases; one exclusion for property owned by the Applicant and the other based upon there being sufficient room at the warehouse. The Staff's adjustment is presented on Schedule C-3.14.

Miscellaneous and Services Expense

The Staff's adjustment to miscellaneous and services expense reflect the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.15.

Regulatory Expense

The Applicant booked PUCO and OCC fee assessments to regulatory expense. The Staff excluded these expenses from operating expenses. The Staff will calculate PUCO and OCC fees using the most recent assessments. This adjustment is reflected in the Summary of Taxes Other Than Income. In addition, the Staff applied the weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.16.

Miscellaneous General Expense

The Staff adjusted several expense accounts associated with miscellaneous general expense to reflect the Staff's weighted five-factor allocation factor. The Staff's adjustment is shown on Schedule C-3.17.

Depreciation Expense Adjustment

Depreciation expense is adjusted to reflect the Staff's recommended depreciable plant in service as of the date certain. This adjustment is presented on Schedule C-3.18 with the supporting calculations shown on Schedule B-3.2. Further discussion on depreciation can be found in the Rate Base Section of this report.

Taxes Other Than Income Taxes

Taxes other than income taxes were adjusted to reflect the proper base and the latest known tax rates. For example, property taxes were computed by applying the latest known property tax rates to property valuations at date certain. F.I.C.A. taxes were calculated based on test year adjusted labor expense.

The Applicant has proposed all Ohio excise taxes and MCF taxes be recovered through two riders. Therefore, the Staff excluded Ohio excise taxes and MCF taxes from test year operating taxes and included the impact of both taxes on the Staff's working capital and federal income tax calculations. Further discussion of the excise and MCF tax riders can be found in the Rates and Tariffs section of this report.

Schedule C-3.19 provides a summary of the calculated taxes and the resultant tax adjustment. The supporting calculations are detailed on C-3.19a through C-3.19f.

Federal Income Taxes

The Staff computed test year federal income taxes to reflect the recommended adjustments to operating revenues and expenses. This computation also reflects the normalization of accelerated tax depreciation.

Schedule C-3.20 provides the calculation of the federal income tax adjustment. Schedule C-4 shows the supporting calculations for federal income taxes.

RATE OF RETURN

In determining a fair rate of return, three economic criteria were established in the landmark *Bluefield* and *Hope* cases. These cases establish that the rate of return should be sufficient to enable the regulated utility to: (1) maintain its credit standing and financial integrity; (2) attract new capital at reasonable costs; and (3) earn returns commensurate with those being earned on investments attended by corresponding risk. However, they also indicate that a utility is not entitled to speculative return. These criteria serve as a basis for appropriate rate of return determination. A regulated company must be able to generate sufficient revenues from the rates set by the regulatory agency to cover all costs, both operating expenses and capital costs, incurred under prudent, honest, and efficient management. The regulatory commission must, therefore, give the investor the opportunity to receive fair compensation.

The Staff has reviewed the financial condition of the Applicant and believes that under prevailing interest rates and general economic conditions, a rate of return in the range of 9.5% to 10.5% is fair and reasonable.

RATES AND TARIFFS

By its application in Case No. 07-194-GA-AIR, the Applicant requests authority to increase rates to be charged and collected for gas service within its service territory.

Staff has investigated the rate and tariff matters proposed by the Applicant. The results of the Staff's investigation pertaining to rates and tariff matters are reported in this section. It is Staff's intent to provide analysis with regard to the acceptability and reasonableness of the changes in revenue recovery mechanisms contained in the proposed tariffs. Proposals made by the staff may require adjustments based on the revenue and rate structure authorized by the Commission.

The Staff's tariff analysis addresses changes specific to individual rate schedules and changes which apply to more than one specific rate class. Rate Design will analyze the Current, Proposed and Staff-Recommended mechanisms for rate recovery. Rate and Revenue Analysis is dedicated to the propriety and impact of the rate schedule proposal. Tables which portray the effects of Current, Proposed and Staff-Recommended rates on typical bills are presented at the end of this section.

TARIFF ANALYSIS

The Applicant is proposing various changes, additions and deletions to its tariffs throughout Sections I through IV. Unless noted, Staff recommends approval of these changes as proposed by the Applicant. Staff proposed changes are provided as follows:

Section 1 Service

1. **Sheet No. 2, # 9: Access to Premises:** The Applicant should add information pertaining to Employee ID from Rule 4901:1-13-07 O.A.C, in this paragraph. The "Access to Premises" paragraph the company's right to access the premise, and customers should know their right to ask for employee ID in that situation.
2. **Sheet No. 4, #15 (f):** The Applicant needs to correct its reference to Rule 4901:1-13-02. Waterville should reference 4901:1-18-02 (G) (1) and (2) not f (1) and (2) regarding refusal or denial of access to premise.
3. **Sheet No. 4, # 15 (j):** The Applicant needs to correct the reference to 4901:1-13-08 (C). Waterville did not include the number "08" in its reference to the rule.

4. **Sheet No. 7, # 19 (e):** The Applicant should also reference Rule 4901:1-13-04 (G) (3) O.A.C. in the sentence that reads: "Subject to the requirements of Revised Code, Section 4933.28, the customer shall pay the Company the amount of such underpayment." O.A.C. Rule 4901:1-13-04 (G) (3), addresses collection from small commercial customers for any undercharged usage as the result of a meter or metering inaccuracy or other continuing problem under the gas or natural gas company's control. Section 4933.28, Revised Code, only references residential customers.

Miscellaneous Charges and Revenue

Staff has historically supported cost-based miscellaneous charges, in that they are incidental costs imposed by individual customers on the Applicant and, ultimately, the rest of the customers. Such costs decrease the funds available for the Applicant to meet its obligations with resulting:

1. Additions to working capital requirements
2. Increased interest expense associated with short-term borrowing; and
3. Labor and non-labor expenses associated with those activities

Staff believes the provisions and resulting charges should reflect the actual cost(s) incurred by the Applicant. These charges should be recovered from customers who cause the expense(s), rather than customers in general. The collection of these charges is generally not dollar-for-dollar, but a reasonable approximation of cost recovery.

Late Payment Charge

The Applicant is proposing new language that specifies which customers are excluded from being assessed the five percent (5%) late payment penalty, and is combining the "Payment of Bills" section of their current tariffs with the "Late Payment Charge" section of their proposed tariffs in this filing. The new language reads as follows:

"If a bill payment is not received by the company offices or by the Company's authorized agent within fourteen (14) days of the date of the invoice, a one-time additional charge of five (5) percent of the customer's billing shall be made. This provision is not applicable to unpaid account balances of any customer enrolled in PIPP or a payment plan pursuant to Rule 4901:1-18-04, Ohio Administrative Code".

Staff feels this new language provides clarity to the Late Payment Charge provision of the Applicant's tariffs and recommends approval.

Dishonored Check and ACH Return Charge

The Applicant is proposing new language in this section to address not only returned checks, but to also include electronic debit transactions from checking accounts. The new language reads as follows:

"Whenever a customer pays a bill by check and the check is returned to the Company by the customer's financial institution for lack of sufficient funds in the customers account, there shall be a dishonored check assessed for each check returned. Whenever customer pays by electronic debit and the ACH is rejected for insufficient funds, there shall be a dishonor charge assessed for each such return. Such customer shall be charged twenty-three dollars (\$23.00) for processing the dishonored check or ACH return".

Staff finds the new language and the associated charges to be just and reasonable and recommends approval.

Reconnection Charge

The Applicant is proposing an increase from \$25.00 to \$50.00 for reconnecting service that has been disconnected involuntarily for non-payment of service. Staff realizes this represents a 100% increase in the charge for this service, and the concept of gradualism is very important in rate implementation, but considering the Applicant has not filed for a rate increase since 1986 in Case No. 86-431-GA-AIR, Staff feels this fee better represents the charge for this service and recommends approval.

Tie-in Charge

The Applicant is proposing this new charge in order to add a provision for restoring service to an account where that service has been stopped for unauthorized use. The tariff states that if a tie-in is required to restore service to the same customer whose service line was cut and plugged because of repeated detection of unauthorized use of service, a charge of \$300.00 or the actual amount incurred by the Applicant to restore service, whichever is less, will be assessed to the customer. Staff agrees that the Applicant should recover expenses associated with restoring this service. Staff recommends approval, however, the customer shall be advised of this charge before the company employee is dispatched to the premise.

RATE DESIGN AND REVENUE ANALYSIS

Rate and Revenue Guidelines

General guidelines or objectives are followed in Staff's review of rate schedules and design. The applicable schedules should provide the utility the opportunity of recovering an authorized revenue. The various schedules should represent a reasonable distribution of revenue between and among the various customer groups. The particular schedules should be equitable and reasonable, should provide for customer understanding and continuity of rates, and should cause minimal customer impact.

Rate design criteria are to be viewed as a package, in that they are interrelated. Although each item can be separately identified and applied to rate schedule determinations, no single standard is overriding in determining proper rate design. The rate schedules which comprise a particular utility's tariffs should provide for recovery of expenses found proper in the course of a regulatory proceeding. If the rate schedule is designed on the basis of cost causation, it will reflect expense characteristics. Normally, and to the extent sufficient information is available, cost of service studies and related expense analyses are necessary to determine the appropriate level of revenue to be generated and the appropriate recovery of such revenue.

From a practicable rate design standpoint, absolute equality between costs and revenues may be difficult to achieve in the short term. While it may be viewed as equitable to set rates at cost, if there is a substantial divergence in the current rates, the resulting impact on individual customers may be viewed as unreasonable. While desiring cost supporting charges, Staff considers such items as resulting typical customer billings and resulting revenue increases which would necessarily occur. These tests help provide benchmarks with regard to reasonableness of charges in rate forms. While it is Staff's position that rate schedules reflect costs, it is also important to consider the continuity associated with current and proposed pricing structures. This may result in movement towards more closely aligning revenue with costs rather than an absolute match at a particular time period.

The following general guidelines or objectives are considered in Staff's review of revenue allocations, rate schedules and rate design. The applicable schedules should strive to achieve some, if not all of the following:

- provide the utility the opportunity of recovering the authorized revenue;
- provide economic efficiency;
- provide fairness or equity;
- provide simplicity and administrative ease;
- promote conservation of resources;
- use stability and gradualism where change is needed;
- promote social goals;
- promote environmental protection;
- promote employment opportunities; and
- represent a reasonable distribution of revenue among the various customer groups.

Cost of Service Analysis

Generally, there are three capacity allocation methodologies that are commonly used – coincident demand, non-coincident demand and average and excess demand. The standard filing requirements allow the selection of any of these approaches, or alternatives, when, in the utility's opinion, the procedure best represents the utility's system characteristics.

The Company's class cost of service study was developed using information taken from the Company's records. Based on these records, it was possible to directly assign the cost of certain assets to the different classes of customers.

The Applicant developed several allocation factors for the purpose of distributing common plant and operations-related costs to the two classes. Certain costs were distributed using an allocation factor based on relative winter throughput. Other allocation factors were developed using number of customers, total throughput, net property, plant, and equipment allocation.

Based upon the above information, Staff accepts the information provided by the Applicant in its Annual Report for the purpose of developing a cost of service study.

REVENUE ANALYSIS

Analyses in this section reflect Staff's recommended rates and charges, which are based on the revenue requirement found proper by the Staff, as fully described in this Staff Report of Investigation. Staff-Recommended revenue is based upon billing determinants as reflected in the Operating Income section of the staff report. Rates and charges shown in the rate schedule tables may require adjustment based on the revenue requirement granted by the Commission, and/or changes in the rate areas, or changes in rate structure approved by the Commission.

Staff recommended revenue, compared with the Applicant's current and proposed increase, is shown in Tables 1, 1(a), 2, and 2(a) excluding and including gas costs. The Staff recommended revenue reflects the adjustments at the point of time this section was written. Further adjustments may be made to the final recommendation.

Table 1

Applicant Proposed Revenue Distribution Excluding Gas Costs

	<u>Current</u>	<u>Company Proposed</u>	<u>Increase</u>
General Service	<u>\$ 1,029,648</u>	<u>\$ 1,520,200</u>	<u>\$ 490,552</u>

Table 1(a)

Staff Recommended Revenue Distribution Excluding Gas Costs

	<u>Current</u>	<u>Staff Proposed</u>	<u>Increase</u>
General Service	<u>\$ 1,029,648</u>	<u>\$ 1,354,204</u>	<u>\$ 324,556</u>

Table 2

Total Revenue Distribution Including Gas Cost and Miscellaneous Revenues

	<u>Current</u>	<u>Company Proposed</u>	<u>Increase</u>
General Service	\$ 6,479,212	\$ 6,969,764	\$ 490,552
Late Payment charges	\$ 25,781	\$ 25,781	\$ 0
Misc. Revenue	<u>\$ 33,000</u>	<u>\$ 33,000</u>	<u>\$ 0</u>
Total Revenue	\$ 6,537,993	\$ 7,028,545	\$ 490,552

Table 2(a)

Staff Recommended
Total Revenue Distribution Including Gas Cost and Miscellaneous Revenues

	<u>Current</u>	<u>Staff Proposed</u>	<u>Increase</u>
General Service	\$ 6,479,212	\$ 6,803,768	\$ 324,556
Late Payment Charges	\$ 21,726	\$ 32,076	\$ 10,350
Misc. Revenue	<u>\$ 33,000</u>	<u>\$ 33,000</u>	<u>\$ 0</u>
Total Revenue	\$ 6,533,938	\$ 6,868,844	\$ 334,906

The revenue increase and revenue distribution tables are based on Staff's adjustments as shown in the schedules included in this report. These adjustments are carried forward and reflected on all such tables.

The Staff-Recommended revenue distribution, compared with Applicant's current and proposed revenue distribution, is shown in Tables 3 and 4, excluding and including gas costs.

Table 3

Total Revenue Distribution Excluding Gas Costs

	<u>Applicant</u>		
	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Proposed</u>
General Service	100%	100%	100%

Current and Company Proposed based on Table 1
Staff Recommended based on Table 1(a)

Table 4

Total Revenue Distribution Including Gas Costs and Miscellaneous Revenues

	<u>Applicant</u>		
	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Proposed</u>
General Service	99.10%	99.16%	99.05%
Late Payment Charges	0.3943%	0.37%	0.47%
Misc. Revenues	0.5047%	0.47%	0.48%
Total Revenues	100.00%	100.00%	100.00%

Current and Company Proposed based on Table 2
Staff Recommended based on Table 2(a)

Rate Design and Schedules

Staff Customer Charge Analysis

Certain, generally unvarying, costs occur as a result of customer connections to the utility's system, regardless of usage. Staff has found it appropriate to separately recognize these costs and to continue this recognition in the form of customer charges in the design of rates.

Staff's general approach to calculating a customer-related cost was established in 1978. Since its establishment, Staff has periodically reviewed the costs included; yet has made few changes to the formula. Customer charges do not represent a dollar-for-dollar collection of the actual cost, but a reasonable approximation of the costs incurred. In recommending customer charges, Staff recognizes and prescribes to the established ratemaking principle of gradualism within the revenue distributions.

Table 5 illustrates the Staff's method for the calculation of the customer charges.

Given the results of the analysis, Staff supports a customer charge of \$10.00 for the General Service customers. If approved, the new charge represents an increase of \$4.50 per month, or 82%. This recommendation differs from the Applicant's proposal which set the customer charge for General Service customers at \$11.00 per month.

Table 5

Customer Charge Analysis

<u>Account</u>		
	<u>Distribution Expenses:</u>	
878	Meter and House Regulators	0
879	Customer Installations	0
	Total Distribution expenses	42,297
	<u>Customer Accounting and Expenses</u>	
901	Supervision	34,907
902	Meter Reading	37,847
903	Customer Records and Collection	50,991
905	Customer Assistance Information	22,478
	Total Customer Expenses	146,223
	Total Distribution expenses	42,297
	Total Distribution and Customer Expenses	188,520
	<u>Net Plant Expenses</u>	
380	Services	
381	Meters	
383	House Regulators	0
	Total Plant Accounts	80,735
	Return on Plant Accounts	10.50% 8,477
	Property Taxes	67,718
	Depreciation Expenses	134,946
	Total	211,141
	Total Distribution and Customer Expenses	188,520
	Customer Charge Revenue	399,661
	Customer Bills	39,888
	Average Monthly Customer Charge	\$10.02
	Staff Recommended Monthly Customer charge	\$10.00

Current and Proposed Rate Design

The Applicant proposes to continue its current rate design. Staff recommends Applicant's general rate design, with adjustments made to compensate for differences in revenue requirements.

Rate Schedule Comparison

A table showing Applicant's Current and Proposed rate schedules, along with Staff recommended rate schedules are shown in Table 6.

Table 6

	<u>Current</u>	<u>Company Proposed</u>	<u>Staff Proposed</u>
General Service	\$ 5.50	\$ 11.00	\$ 10.00
All Mcf	2.3002	3.07	2.712

Table 7

General Service/Commercial

<u>Usage</u>	<u>Applicant Current</u>	<u>Applicant Proposed</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>	<u>Staff Proposed</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
0	5.50	\$ 11.00	\$ 5.50	100.00%	\$ 10.00	\$ 4.50	81.82%
1	7.80	14.07	\$ 6.27	80.38%	\$ 12.71	\$ 4.91	62.97%
5	17.00	26.35	\$ 9.35	54.99%	\$ 23.56	\$ 6.56	38.58%
10	28.50	41.70	\$ 13.20	46.31%	\$ 37.12	\$ 8.62	30.24%
20	51.50	72.40	\$ 20.90	40.57%	\$ 64.24	\$ 12.74	24.73%
30	74.51	103.10	\$ 28.59	38.38%	\$ 91.36	\$ 16.85	22.62%
40	97.51	133.80	\$ 36.29	37.22%	\$ 118.48	\$ 20.97	21.51%
50	120.51	164.50	\$ 43.99	36.50%	\$ 145.60	\$ 25.09	20.82%
75	178.02	241.25	\$ 63.24	35.52%	\$ 213.40	\$ 35.39	19.88%
100	235.52	318.00	\$ 82.48	35.02%	\$ 281.20	\$ 45.68	19.40%
250	580.55	778.50	\$ 197.95	34.10%	\$ 688.00	\$ 107.45	18.51%
500	1,155.60	1,546.00	\$ 390.40	33.78%	\$ 1,366.00	\$ 210.40	18.21%
<u>Customer Charge</u>			<u>Current Rates (\$)</u>		<u>Proposed Rates (\$)</u>	<u>Staff Proposed Rates (\$)</u>	
Volumetric Rate (\$/Mcf)			5.5		11	10	
			2.3002		3.07	2.712	

SERVICE MONITORING AND ENFORCEMENT

The Service Monitoring and Enforcement Department's (SMED) Investigation and Audit Division (IAD) educates customers about utility issues, mediates disputes, and audits utilities' customer service activities. Staff receives complaints and inquiries through letters, referrals, and calls to its toll-free hotline.

Customer Service Audit

Staff performs customer service audits to endure compliance with pertinent statutes, rule and tariffs.

Staff completed a customer service audit in June 2007 regarding the customer service performance, practices, and procedures of the company. Staff found that overall, the company was in compliance with the rules and regulations set forth by the Public Utilities Commission of Ohio.

The company also operates a website. The website allows customers to apply for service online, new service and tap forms can be printed by businesses and builder and customers may print bank payment forms. The new service online applications are not maintained in a secured format.

The company should be commended for its flexible payment plans afforded its customers. These flexible plans offer customers weekly and monthly payment plans that exceed what are required by Commission rules.

The company serves less than 6,000 customers and employs two staff members (three in cases of call overflow) who are available to answer incoming calls during the business hours of 8:00 a.m. and 4:00 p.m. Monday through Friday.

Customer Contacts

Staff reviewed the contacts made by the company's customers to IAD for the period of January 1, 2006 through June 30, 2007. Thirteen contacts were made during this period, with eight in calendar year 2006 and five in 2007 to date. Six of the contacts related to rates and competition issues. Three contacts were about disconnection issues. Two customers contacted the PUCO to protest the company's rate case. One contact regarded a utility easement and the final contact was regarding the Village rates which are non-jurisdictional.

Recommendation

The company should develop a secure website for new online service application.

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Revenue Requirements

		Lower Bound	Upper Bound
(1)	Rate Base (a)	\$ 3,067,232	\$ 3,067,232
(2)	Adjusted Operating Income (b)	126,479	126,479
(3)	Rate of Return Earned (2) / (1)	\$ 4.12%	\$ 4.12%
(4)	Rate of Return Recommended (c)	9.50%	10.50%
(5)	Required Operating Income (1) x (4)	\$ 291,387	\$ 322,059
(6)	Income Deficiency (5) - (2)	\$ 164,908	\$ 195,580
(7)	Gross Revenue Conversion Factor (d)	1.515152	1.515152
(8)	Revenue Increase Required (6) x (7)	\$ 249,861	\$ 296,334
(9)	Revenue Increase Recommended	249,861	296,334
(10)	Adjusted Operating Revenue (b)	1,084,374	1,084,374
(11)	Revenue Requirements (9) + (10)	\$ 1,334,235	\$ 1,380,708
(12)	Increase Over Current Revenue (9) / (10)	23.04%	27.33%

- (a) Staff's Schedule B-1
(b) Staff's Schedule C-2
(c) Refer to Rate of Return Section
(d) Staff's Schedule A-1.1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Gross Revenue Conversion Factor

(1)	Gross Revenue	100.000000
(2)	Uncollectibles (1) x 0.000000%	<u>0.000000</u>
(3)	Net Revenue (1) - (2)	100.000000
(4)	Ohio Gross Receipts Tax (3) x 0.000000%	<u>0.000000</u>
(5)	Income Before Federal Income Taxes (3) - (4)	100.000000
(6)	Federal Income Taxes (7) x 34.0000%	<u>34.000000</u>
(7)	Operating Income Percentage (5) - (6)	66.000000
(8)	Gross Revenue Conversion Factor (1) / (7)	<u>1.515152</u>

SCHEDULE B-1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Rate Base Summary
As of Date Certain, December 31, 2006

(1)	Plant in Service (a)	\$ 4,350,078
(2)	Depreciation Reserve (b)	<u>1,347,902</u>
(3)	Net Plant in Service	3,002,176
(4)	Construction Work in Progress (c)	0
(5)	Working Capital Allowance (d)	85,017
(6)	Other Rate Base Items (e)	<u>(19,961)</u>
(7)	Rate Base (3) Thru (6)	\$ <u>3,067,232</u>

- (a) Staff's Schedule B-2
- (b) Staff's Schedule B-3
- (c) Staff's Schedule B-4, Subject to 10% Limitation
- (d) Staff's Schedule B-5
- (e) Staff's Schedule B-6

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Jurisdictional Plant in Service Summary

Major Property Groupings

Distribution Plant (a)	\$ 4,097,041
General Plant (a)	<u>253,038</u>
Total Plant in Service	\$ <u>4,350,078</u>

(a) Staff's Schedule B-2.1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Jurisdictional Plant in Service

Acct. No.	Description	Applicant's Unadjusted (a)	Adjustments (b)	Staff's Adjusted Total Company (c)	Allocation Factor % (d)	Staff's Adjusted Jurisdictional (e)
<u>Distribution Plant</u>						
374	Land and Land Rights	\$ 28,976		\$ 28,976	54.62%	\$ 15,827
375	Structures & Improvements	57,546		57,546	54.62%	31,432
376.1	Mains-Corporation	1,082,784		1,082,784		
376.1	Mains-Rural	1,724,452		1,724,452	100.00%	1,724,452
376.1	Mains-Corp. to Rural	388,369		388,369	54.62%	212,127
376.2	Mains-Common to Total System	54,650		54,650	54.62%	29,850
376.3	Mains-Common to Corp. & Rural	12,562		12,562	54.62%	6,861
376.3	Mains-Rural	597,080		597,080	100.00%	597,080
377	Compressor Station Equipment					
378	Meas. and Reg. Sta.Equip.-General	64,549		64,549	54.62%	35,257
379	Meas. and Reg. Sta.Equip.-City Gate	281,742		281,742	54.62%	153,887
380	Services-Corporation	415,400		415,400		
380	Services-Rural	900,237		900,237	100.00%	900,237
381	Meters	653,826		653,826	54.62%	357,120
382	Meter Installations					
383	House Regulators	60,255		60,255	54.62%	32,911
384	House Reg. Installations					
385	Industrial Meas. and Reg. Sta. Equip.					
386	Other Prop. on Customers' Premises					
387	Other Equipment					
	Total Distribution Plant	6,322,428		6,322,428		4,097,041
<u>General Plant</u>						
389	Land and Land Rights					
390	Structures and Improvements					
391	Office Furniture and Equipment	31,523		31,523	54.62%	17,218
391	Computer Equipment	36,125		36,125	54.62%	19,731
391	Computer Software	21,131		21,131	54.62%	11,542
392	Transportation Equipment	246,773		246,773	54.62%	134,787
393	Stores Equipment					
394	Tools, Shop and Garage Equipment	114,169		114,169	54.62%	62,359
395	Laboratory Equipment					
396	Power Operated Equipment					
397	Communication Equipment	13,548		13,548	54.62%	7,400
398	Miscellaneous Equipment					
399	Other Tangible Property					
	Total General Plant	463,269		463,269		253,038
	Total Plant in Service	\$ 6,785,697		\$ 6,785,697		\$ 4,350,078

- (a) Applicant's 2006 PUCO Annual Report
(b) Staff's Schedule B-2.2
(c) Columns (a) + (b)
(d) Refer to Text
(e) Columns (c) x (d)

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Jurisdictional Depreciation Reserve

Accl. No.	Description	Applicant's Unadjusted (a)	Adjustments (b)	Staff's Adjusted Jurisdictional (c)	Allocation Factor % (d)	Staff's Adjusted Jurisdictional (e)
<u>Distribution Plant</u>						
374	Land and Land Rights	\$	\$	\$		\$
375	Structures & Improvements	30,627		30,627	54.62%	16,728
376	Mains					
376.1	Mains-Corporation	280,895		280,895		
376.1	Mains-Rural	447,356		447,356	Direct	447,356
376.1	Mains-Corp. to Rural	100,750		100,750	54.62%	55,030
376.2	Mains-Common to Total System	14,177		14,177	54.62%	7,743
376.3	Mains-Common to Corp. & Rural	3,258		3,258	54.62%	1,780
376.3	Mains - Rural	154,894		154,894	Direct	154,894
377	Compressor Station Equipment					
378	Meas. and Reg. Sta.Equip.-General	18,274		18,274	54.62%	9,981
379	Meas. and Reg. Sta.Equip.-City Gate	49,806		49,806	54.62%	27,204
380	Services-Corporation					
380	Services-Rural	391,452		391,452	Direct	391,452
381	Meters	152,663		152,663	54.62%	83,385
382	Meter Installations					
383	House Regulators	39,140		39,140	54.62%	21,378
384	House Reg. Installations					
385	Industrial Meas. and Reg. Sta. Equip.					
386	Other Prop. on Customers' Premises					
387	Other Equipment					
Total Distribution Plant		1,683,292		1,683,292		1,216,931
<u>General Plant</u>						
389	Land and Land Rights					
390	Structures and Improvements					
391	Office Furniture and Equipment	41,746		41,746	54.62%	22,802
392	Transportation Equipment	143,879		143,879	54.62%	78,587
393	Stores Equipment					
394	Tools, Shop and Garage Equipment	48,679		48,679	54.62%	26,588
395	Laboratory Equipment					
396	Power Operated Equipment					
397	Communication Equipment	5,481		5,481	54.62%	2,994
398	Miscellaneous Equipment					
399	Other Tangible Property					
Total General Plant		239,785		239,785		130,971
Total Plant in Service		\$ 1,923,077		\$ 1,923,077		\$ 1,347,902

- (a) Applicant's 2006 PUCO Annual Report
(b) Staff's Schedule B-2.2
(c) Columns (a) + (b)
(d) Refer to Text
(e) Columns (c) x (d)

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Jurisdictional Depreciation Expense

Accl. No.	Description	Jurisdictional Plant In Service (a)	Accrual Rate (b)	Jurisdictional Depreciation Expense (c)
<u>Distribution Plant</u>				
374	Land and Land Rights	\$ 15,827		\$
375	Structures & Improvements	31,432	2.27%	714
376	Mains			
376.1	Mains-Corporation			
376.1	Mains-Rural	1,724,452	2.50%	43,111
376.1	Mains-Corp. to Rural	212,127	2.50%	5,303
376.2	Mains-Common to Total System	29,850	2.50%	746
376.3	Mains-Common to Corp. & Rural	6,861	2.50%	172
376.3	Mains - Rural	597,080	2.50%	14,927
377	Compressor Station Equipment			
378	Meas. and Reg. Sta.Equip.-General	35,257	3.33%	1,175
379	Meas. and Reg. Sta.Equip.-City Gate	153,887	3.55%	5,461
380	Services-Corporation			
380	Services-Rural	900,237	3.88%	34,884
381	Meters	357,120	3.33%	11,904
382	Meter Installations			
383	House Regulators	32,911	3.33%	1,097
384	House Reg. Installations			
385	Industrial Meas. and Reg. Sta. Equip.			
386	Other Prop. on Customers' Premises			
387	Other Equipment			
Total Distribution Plant		4,097,041		119,494
<u>General Plant</u>				
389	Land and Land Rights			
390	Structures and Improvements			
391	Office Furniture and Equipment	17,218	4.55%	783
391	Computer Equipment	19,731	20.00%	3,946
391	Computer Software	11,542	20.00%	2,308
392	Transportation Equipment	134,787	14.29%	19,256
393	Stores Equipment			
394	Tools, Shop and Garage Equipment	62,359	6.67%	4,157
395	Laboratory Equipment			
396	Power Operated Equipment			
397	Communication Equipment	7,400	10.00%	740
398	Miscellaneous Equipment			
399	Other Tangible Property			
Total General Plant		253,038		31,189
Total Plant in Service		\$ 4,350,078		\$ 150,683

- (a) Staff's Schedule B-2.1
(b) Staff's Schedule B-3.2a
(c) Columns (a) x (b)

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Accrual Rate Comparison

Acct. No.	Description	Current			Staff Proposed		
		Avg Svc Life	Net Salv. %	Accrual Rate % (a)	Avg Svc Life	Net Salv. %	Accrual Rate % (b)
Distribution Plant							
374	Land and Land Rights			0.00%			0.00
375	Structures & Improvements	44	(10)	2.50%	44	0	2.27%
376	Mains	51	(13)	2.22%	50	(25)	2.50%
378	Meas. & Reg. Sta. Equip.-General	33	(3)	3.12%	33	(10)	3.33%
379	Meas. & Reg. Sta. Equip.-City Gate	36	(14)	3.17%	31	(10)	3.55%
380	Services	40	(72)	4.30%	40	(55)	3.88%
381	Meters and Installations	46	9	2.38%	30	0	3.33%
383	House Regulators	29	6	3.51%	30	0	3.33%
General Plant							
391	Office Furniture & Equipment	25	4	3.84%	22	0	4.55%
391	Computer Equipment			10.11%	5	0	20.00%
391	Computer Software			10.11%	5	0	20.00%
392	Transportation Equipment			9.56%	7	0	14.29%
394	Tools, Shop & Garage Equipment	12	23	6.42%	15	0	6.67%
397	Communication Equipment	16	8	5.75%	10	0	10.00%

(a) Case No. 86-431-GA-AIR

(b) Staff Workpaper WPB-3.2a

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Working Capital Allowance

(1) Operation & Maintenance Expense (a)	\$ 658,121
(2) Expense Lag Dollars (1) / 8	82,265
(3) Materials & Supplies (b)	36,912
(4) 1/4 of Operating Taxes (c)	<u>34,160</u>
(5) Working Capital (2) + (3) - (4)	\$ <u>85,017</u>

- (a) Staff's Schedule C-2
(b) Applicant's 2006 General Ledger Times Allocation Factor
(c) Represents 1/4 of Operating Taxes Excluding FICA and Deferred Income Taxes

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Other Rate Base Items

(1)	Customers' Deposits (a)	\$	22,822
(2)	Customer Advances (a)		0
(3)	Deferred Taxes (b)		<u>(2,861)</u>
(4)	Total (1) + (2) + (3)	\$	<u>19,961</u>

- (a) Applicant's PUCO 2006 Annual Report
(b) Staff's Schedule C-4

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Jurisdictional Allocation Factors

<u>District</u>	<u>Gross Distribution Plant In Service</u>	<u>Net Distribution Plant In Service</u>	<u>Customers</u>	<u>Volume</u>	<u>Revenues</u>	<u>Weighted Average Allocation</u>
(1) Rural Distribution Plant	\$ 3,221,769	\$ 2,228,067	3,324	298,834	\$ 3,954,624	
(2) Total Distribution Plant	<u>6,322,428</u>	<u>4,639,136</u>	<u>5,420</u>	<u>525,654</u>	<u>7,072,038</u>	
(3) Allocation Factor	<u>50.96%</u>	<u>48.03%</u>	<u>61.33%</u>	<u>56.85%</u>	<u>55.92%</u>	<u>54.62%</u>

Source: Applicant's Response to Staff's Data Request 1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Proforma Operating Income Statement
For The Twelve Months Ending December 31, 2006

	Adjusted Revenues & Expenses (a)	Proforma Adjustments (b)	Proforma Revenues & Expenses (c)
<u>Operating Revenues</u>			
Base	\$ 1,029,648	\$ 490,552	\$ 1,520,200
Gas Cost	0		0
Late Payment	21,726	10,351	32,076
Lease	<u>33,000</u>		<u>33,000</u>
Total Operating Revenues	1,084,374	500,903	1,585,277
<u>Operating Expenses</u>			
Operation and Maintenance	658,121	0	658,121
Depreciation	150,683		150,683
Taxes, Other Than Income	114,805	0	114,805
Federal Income Taxes	<u>34,286</u>	<u>170,307</u>	<u>204,593</u>
Total Operating Expenses	957,895	170,307	1,128,202
Net Operating Income	\$ <u>126,479</u>	\$ <u>330,596</u>	\$ <u>457,075</u>
Rate Base (d)	\$ <u>3,067,232</u>		\$ <u>3,067,232</u>
Rate of Return (e)	<u>4.12%</u>		<u>14.90%</u>

- (a) Staff's Schedule C-2
(b) Staff's Schedule C-1.1
(c) Columns (a) + (b)
(d) Staff's Schedule B-1
(e) Net Operating Income / Rate Base

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Proforma Adjustments

(1)	Proposed Revenue Increase (a)	\$	490,552
(2)	Late Payment Revenue (1) x 2.110000% (a)		<u>10,351</u>
(3)	Total Proposed Revenue Increase (1) + (2)	\$	<u>500,903</u>
(4)	Uncollectible Accounts Expense (3) x 0.000000%	\$	<u>0</u>
(5)	Ohio Gross Receipts Tax	\$	<u>0</u>
(6)	Federal Income Tax (b)	\$	<u>170,307</u>

- (a) Staff's Schedule C-1.1a
(b) Staff's Schedule C-4

WATERVILLE GAS & OIL COMPANY

Case No. 07-0194-GA-AIR

Summary of Operating Revenues at Current and Proposed Rates

	(a) Annual Number of Customers	(b) Test Year Consumption MCF's	(c) Current Monthly Rate	(d) Current Revenue Excluding Gas Cost Revenue	(e) Proposed Rate	(f) Proposed Revenue Excluding Gas Cost Revenue	(g) Revenue Increase Excluding Gas Cost Revenue	(h) % Increase In Revenue Excluding Gas Cost Revenue
(1) Customer Charge			\$ 5.50	\$ 219,384	\$ 11.00	\$ 438,768	\$ 219,384	100.00%
(2) 1st 1000	3,324	352,258	2.3002	810,284	3.070	1,081,432	271,168	33.47%
(3) Total				1,029,648		1,520,200	490,552	47.64%
Other Revenue								
(4) Late Payment Revenue (3) x 2.11% (k)								
(5) Lease Revenue								
(6) Total Other Revenue								
(7) Total Revenue (3) + (6)								
				\$ 1,084,374		\$ 1,585,277	\$ 500,903	46.19%

- (a) Applicant's Response to Data Request 1
(b) Staff's Worksheet WPC 1.1a
(c) Applicant's Current Tariff on File
(d) Customer Charge: columns (a) x (c), Base Rate: columns (b) x (c)
(e) Applicant's Proposed Rates
(f) Customer Charge: columns (a) x (e), Base Rate: columns (b) x (e)
(g) Columns (f) - (d)
(h) Columns (g) / (d)
(i) Total Current Revenue x .0211
(j) Total Proposed Revenue x .0211
(k) Actual Late Payment Revenue to Total Current Revenues (\$22,294/\$1,056,583)

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Adjusted Test Year Operating Income

	Test Year Revenues & Expenses (a)	Adjustments (b)	Adjusted Revenues & Expenses (c)
<u>Operating Revenues</u>			
Base	\$ 2,136,809	\$ (1,107,161)	\$ 1,029,648
Gas Costs	5,449,564	(5,449,564)	0
Late Payment		21,726	21,726
Lease		33,000	33,000
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	7,586,373	(6,501,999)	1,084,374
<u>Operating Expenses</u>			
Gas Costs	5,449,564	(5,449,564)	0
Other Operation & Maintenance	1,377,695	(719,574)	658,121
	<hr/>	<hr/>	<hr/>
Total Operation & Maintenance	6,827,259	(6,169,138)	658,121
Depreciation & Amortization	218,901	(68,218)	150,683
Taxes, Other Than Income	515,164	(400,359)	114,805
Income Taxes		34,286	34,286
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	7,561,324	(6,603,429)	957,895
Net Operating Income	\$ <u>25,049</u>	\$ <u>101,430</u>	\$ <u>126,479</u>

- (a) Applicant's 2006 PUCO Annual Report
(b) Staff's Schedule C-3
(c) Columns (a) + (b)

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Summary of Staff's Adjustments

<u>Operating Revenues</u>		
C-3.1	Base Revenue Annualization	\$ (1,107,181)
C-3.2	Gas Cost Revenue	(5,449,564)
C-3.3	Late Payment Revenue	21,726
C-3.4	Lease Revenue	<u>33,000</u>
	Total Revenue Adjustments	\$ <u>(6,501,999)</u>
<u>Operating Expenses</u>		
C-3.5	Gas Cost Expense	\$ (5,449,564)
C-3.6	Payroll Expense	(426,694)
C-3.7	Employee Pensions & Benefits	(69,073)
C-3.8	Interest on Customer Deposits	685
C-3.9	Insurance Policies Expense	(30,258)
C-3.10	Rate Case Expense	3,000
C-3.11	Office Supplies & Other Expenses	(31,119)
C-3.12	Postage Expense	(11,497)
C-3.13	Supplies & Expenses Expense	(40,739)
C-3.14	Lease Expense	(45,600)
C-3.15	Miscellaneous & Service Expense	(1,881)
C-3.16	Regulatory Expense	(12,362)
C-3.17	Miscellaneous General Expense	<u>(54,034)</u>
	Total O & M Expenses	\$ (6,169,138)
C-3.18	Depreciation Expense	\$ (68,218)
C-3.19	Taxes Other Than Income Taxes	(400,359)
C-3.20	Federal Income Taxes	\$ <u>34,286</u>
	Total Operating Expenses and Taxes	\$ <u>(6,603,429)</u>

Source: Staff's Schedules C-3.1 Through C-3.20

SCHEDULE C-3.1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Base Revenue Adjustment

(1) Annualized Revenues (a)	\$ 1,029,648
(2) Test Year Revenues (b)	<u>2,136,809</u>
(3) Adjusted Annualized Revenues (1) - (2)	\$ <u>(1,107,161)</u>

- (a) Staff's Schedule C-1.1a
(b) Applicant's 2006 PUCO Annual Report Less Gas Cost

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Gas Cost Revenue Adjustment

(1) Elimination of Test Year Gas Cost Revenues (a)	\$ <u>(5,449,564)</u>
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(a) Applicant's 2006 PUCO Annual Report

SCHEDULE C-3.3

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Late Payment Revenue Adjustment

(1) Base Revenues (a)	\$ 1,029,648
(2) Late Payment Ratio (b)	<u>2.11%</u>
(3) Late Payment Revenue (1) x (2)	21,726
(4) Test Year Late Payment Revenue (c)	<u>0</u>
(5) Adjustment (4) - (5)	\$ <u>21,726</u>

- (a) Staff's Schedule C-1.1a
- (b) Late Payment Revenue / Current Revenue (\$22,294/\$1,056,583)
- (c) Applicant's 2006 PUCO Annual Report

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Lease Revenue Adjustment

(1) Lease Revenue (a)	\$ 33,000
(2) Test Year Lease Revenue (b)	<u>0</u>
(3) Adjusted Lease Revenues (1) - (2)	\$ <u>33,000</u>

- (a) Derived from Staff's Data Request 1
- (b) Applicant's 2006 PUCO Annual Report

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Gas Cost Expense Adjustment

(1) Elimination of Test Year Gas Cost Expenses (a)	\$ <u>(5,449,564)</u>
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(a) Applicant's 2006 PUCO Annual Report

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Payroll Expense Adjustment

(1) Adjusted Payroll Expense (a)	\$ 387,865
(2) Test Year Payroll Expense (b)	<u>794,559</u>
(3) Adjustment (1) - (2)	\$ <u>(426,694)</u>

- (a) Staff's Workpaper WPC-3.6
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Employee Pensions & Benefits Expense Adjustment

(1) Adjusted Employee Pensions & Benefits Expense (a)	\$ 99,827
(2) Test Year Employee Pensions & Benefits Expense (b)	<u>168,900</u>
(3) Adjustment (1) - (2)	\$ <u>(69,073)</u>

- (a) Staff's Workpaper WPC-3.7
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Interest on Customer Deposits Expense Adjustment

(1) Jurisdictional Customer Deposits (a)	\$ 22,822
(2) Interest Rate (b)	<u>3.00%</u>
(3) Interest on Customer Deposits (1) x (2)	\$ <u>685</u>

- (a) Derived from Applicant's Financial Records Times the Allocation Factor
(b) Derived from Staff's Field Investigation

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Insurance Policies Expense Adjustment

(1) Adjusted Insurance Policies Expense (a)	\$ 36,419
(2) Test Year Life Insurance Expense (b)	<u>66,677</u>
(3) Adjustment (1) - (2)	\$ <u>(30,258)</u>

- (a) Staff's Workpaper WPC-3.9
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Rate Case Expense Adjustment

(1) Estimated Rate Case Expense (a)	\$ 15,000
(2) Amortization Period (Years)	<u>5</u>
(3) Adjusted Rate Case Expense (1) / (2)	\$ <u>3,000</u>

(a) Derived from Staff's Data Request 3

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Office Supplies & Other Expense Adjustment

(1) Adjusted Office Supplies & Other Expenses (a)	\$ 27,158
(2) Test Year Office Supplies & Other Expenses (b)	<u>58,277</u>
(3) Adjustment (1) - (2)	<u>\$ (31,119)</u>

- (a) Staff's Workpaper WPC-3.11
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Postage Expense Adjustment

(1)	Adjusted Postage Expense (a)	\$	15,266
(2)	Test Year Postage Expense (b)		<u>26,763</u>
(3)	Adjustment (1) - (2)	\$	<u>(11,497)</u>

- (a) Staff's Workpaper WPC-3.12
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Supplies & Expenses Adjustment

(1) Adjusted Supplies & Expense (a)	\$ 49,034
(2) Test Year Supplies & Expense (b)	<u>89,773</u>
(3) Adjustment (1) - (2)	<u>\$ (40,739)</u>

- (a) Staff's Workpaper WPC-3.13
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

SCHEDULE C-3.14

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Lease Expense Adjustment

(1) Adjusted Test Year Lease Expense (a)	\$ 0
(2) Test Year Lease Expense (b)	<u>45,600</u>
(3) Adjustment (1) - (2)	\$ <u>(45,600)</u>

- (a) Staff's Workpaper WPC-3.14
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Miscellaneous & Services Expense Adjustment

(1) Adjusted Miscellaneous & Services Expense (a)	\$ 2,265
(2) Test Year Miscellaneous & Services Expense (b)	<u>4,146</u>
(3) Adjustment (1) - (2)	<u>\$ (1,881)</u>

- (a) Staff's Workpaper WPC-3.15
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Regulatory Expense Adjustment

(1) Adjusted Regulatory Expense (a)	\$ 322
(2) Test Year Regulatory Expense (b)	<u>12,684</u>
(3) Adjustment (1)- (2)	<u>\$ (12,362)</u>

- (a) Staff's Workpaper WPC-3.16
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Miscellaneous General Expense Adjustment

(1) Adjusted Miscellaneous General Expense (a)	\$ 56,283
(2) Test Year Miscellaneous General Expense (b)	<u>110,317</u>
(3) Adjustment (3) - (4)	\$ <u>(54,034)</u>

- (a) Staff's Workpaper WPC-3.17
(b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Depreciation Expense Adjustment

(1) Adjusted Depreciation Expense (a)	\$ 150,683
(2) Test Year Depreciation Expense (b)	<u>218,901</u>
(3) Adjustment (1) - (2)	\$ <u>(68,218)</u>

- (a) Staff's Schedule B-3.2
(b) Applicant's 2006 PUCO Annual Report

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Summary of Taxes Other Than Income Adjustment

	Schedule Reference	Adjusted Taxes
(1) Ohio Property Taxes	3.19a	\$ 92,343
(2) Ohio Gross Receipts Tax (a)	3.19b	0
(3) Calculation of FICA Taxes	3.19c	15,312
(4) State and Federal Unemployment Taxes	3.19d	601
(5) MCF Taxes (a)	3.19e	0
(6) PUCO Maintenance and OCC Taxes	3.19f	<u>6,549</u>
(7) Total Taxes Other Than Income Taxes (1) thru (6)		114,805
(8) Test Year Taxes Other Than Income Taxes (b)		<u>515,164</u>
(9) Adjustment (7) - (8)		\$ <u>(400,359)</u>

(a) Refer to Text

(b) Applicant's 2006 PUCO Annual Report

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Property Taxes

(1) Applicant's 2006 Real Property Taxes (a)	\$ 400
(2) Applicant's 2006 Personal Property Taxes (a)	<u>130</u>
(3) Adjustment (1) + (2)	<u>\$ 530</u>

(a) Staff's Workpaper WPC-3.19a

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Ohio Gross Receipts Tax

	<u>Adjusted Operating Income</u>	<u>Proforma Operating Income</u>
(1) Adjusted Operating Revenues (a)	\$ 1,084,374	\$ 1,585,277
(2) Less: Uncollectible Accounts Expense (1) x .00000	0	0
(3) Less: Non-Taxable Receipts (1) x .00000	0	0
(4) Less: Statutory Exemption	<u>25,000</u>	<u>25,000</u>
(5) Net Taxable Revenue (1) - (2) - (3) - (4)	1,059,374	1,560,277
(6) Tax Rate	<u>4.75%</u>	<u>4.75%</u>
(7) Ohio Gross Receipts Tax (5) x (6)	<u>\$ 50,320</u>	<u>\$ 74,113</u>

(a) Staff's Schedule C-1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of FICA Taxes

(1) Total Taxable FICA Wages (a)	\$ 366,447
(2) FICA Tax Rate (b)	<u>7.65%</u>
(3) Total Waterville Gas & Oil Company FICA Taxes (1) x (2)	28,033
(4) Allocation Factor (c)	<u>54.62%</u>
(5) Jurisdictional FICA Taxes (3) x (4)	\$ <u>15,312</u>

- (a) Derived From Staff's Schedule C-3.3
(b) Latest Known Rate
(c) Refer to Text

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of State & Federal Unemployment Taxes

		<u>State</u>		<u>Federal</u>
(1) Taxable Wages	\$	9,000	\$	7,000
(2) Number of Employees (a)		<u>10</u>		<u>10</u>
(3) Taxable Wages (1) x (2)		90,000		70,000
(4) Unemployment Tax Rate (b)		<u>0.0060</u>		<u>0.0080</u>
(5) Unemployment Taxes (3) x (4)		540		560
(6) Allocation Factor (c)		<u>54.62%</u>		<u>54.62%</u>
(7) Jurisdictional Unemployment Taxes (5) x (6)	\$	<u>295</u>	\$	<u>306</u>

- (a) Derived From Applicant's Payroll Information
(b) Applicant's Unemployment Tax Rates
(c) Refer to Text

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of MCF Taxes

	General Service Mcf Sales (a)	Rate Blocks			Total Test Year Mcf Sales
		100	101 - 2,000	Over 2,000	
(1) January	45,010	100	1,900	43,010	45,010
(2) February	48,562	100	1,900	46,562	48,562
(3) March	47,819	100	1,900	45,819	47,819
(4) April	17,899	100	1,900	15,899	17,899
(5) May	12,810	100	1,900	10,810	12,810
(6) June	8,129	100	1,900	6,129	8,129
(7) July	6,090	100	1,900	4,090	6,090
(8) August	6,894	100	1,900	4,894	6,894
(9) September	7,279	100	1,900	5,279	7,279
(10) October	18,564	100	1,900	16,564	18,564
(11) November	36,596	100	1,900	34,596	36,596
(12) December	43,182	100	1,900	41,182	43,182
(13) Total Test Year Mcf Sales	298,834	1,200	22,800	274,834	298,834
(14) Mcf Tax Rate		\$ 0.1593	\$ 0.0877	\$ 0.0411	
(15) Mcf Tax (13 x (14))		\$ 191	\$ 2,000	\$ 11,296	\$ 13,486

(a) Derived from Staff's Data Request 1

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of PUCO Maintenance and OCC Fund

(1)	PUCO Maintenance Assessment (a)	\$	9,820
(2)	OCC Funds Assessment (a)		<u>2,170</u>
(3)	Total Assessment (1) + (2)		11,990
(4)	Allocation Factor		<u>54.62%</u>
(5)	Adjustment (3) x (4)	\$	<u>6,549</u>

(a) Latest Known Assessments

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Federal Income Tax Expense Adjustment

(1) Adjusted Federal Income Taxes (a)	\$ 34,286
(2) Test Year Federal Income Taxes (b)	<u>0</u>
(3) Adjustment (1) - (2)	<u>\$ 34,286</u>

- (a) Staff's Schedule C-4
- (b) Applicant's 2006 PUCO Annual Report and Federal Tax Return

WATERVILLE GAS & OIL COMPANY
Case No. 07-0194-GA-AIR
Calculation of Federal Income Taxes

	<u>Adjusted Operating Income</u>	<u>Proforma Operating Income</u>
(1) Operating Income Before FIT (a)	\$ 160,765	\$ 661,668
<u>Reconciling Items:</u>		
(2) Interest Charges (b)	(59,924)	(59,924)
(3) Book Depreciation (c)	150,683	150,683
(4) Tax Accelerated Depreciation (b)	<u>142,268</u>	<u>142,268</u>
(5) Excess of Tax Over Book Depreciation (3) - (4)	8,415	8,415
(6) Total Reconciling Items (2) + (5)	(51,509)	(51,509)
(7) Federal Taxable Income (1) + (6)	109,256	610,159
(8) Federal Taxable Income Rate	<u>34.00%</u>	<u>34.00%</u>
(9) Federal Income Taxes (7) x (8)	37,147	207,454
<u>Deferred Income Taxes:</u>		
(10) Tax Accelerated Depreciation (b)	142,268	142,268
(11) Tax Straight Line Depreciation (c)	<u>150,683</u>	<u>150,683</u>
(12) Excess of Tax Accelerated over Tax S/L Deprec. (10) - (11)	(8,415)	(8,415)
(13) Deferred @34%	(2,861)	(2,861)
(14) Total Federal Income Taxes (9) + (13)	<u>\$ 34,286</u>	<u>\$ 204,593</u>

(a) Staff's Schedule C-1

(b) Applicant's 2006 Federal Tax Return Times Allocation Factor of 54.62%

(c) Staff's Schedule B-3.2

