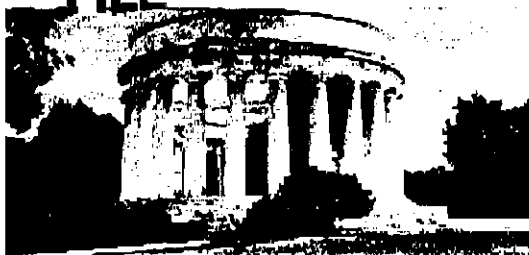


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CITY OF MARION

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OFFICE OF THE LAW DIRECTOR

233 West Center Street

Marion, Ohio 43302

(740) 387-4817

(740) 387-4956

MARK D. RUSSELL, LAW DIRECTOR

June 24, 2008

Public Utilities Commission of Ohio
180 East Broad Street, 13th Floor
Columbus, OH 43215

Re: Ohio American Water Company
Case No. 07-1112-WS-AIR

BY FAX TRANSMISSION 614-466-0313

Please accept the attached to be filed in pending case number: 07-1112-WS-AIR.

If there are any questions related hereto, please contact me at 740-387-3777.

Very truly,

Mark D. Russell
Law Director

MDR\

COVER + ATTACHMENTS = 7 total pages

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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

PUCO

In the Matter of the Application of)
Ohio-American Water Company To)
Increase Its Rates For Water And)
Sewer Service Provided to Its Entire)
Service Area.)

Case No. 07-1112-WS-AIR

**OBJECTIONS TO THE STAFF REPORT OF INVESTIGATION AND
SUMMARY OF MAJOR ISSUES
BY THE CITY OF MARION, OHIO**

(Date June 25, 2008)

Pursuant to ORC 4909.19, et. al., OAC Rule 4901-1-28 and the Attorney Examiner's Entry dated June 18, 2008, the City of Marion, Ohio (hereinafter referred to as "City") files its Objections to the Staff Report of Investigation (hereinafter referred to as "Staff Report") in the above caption matter. City Specifically reserves the right to contest, through presentation of documentary evidence, testimony or cross-examination, issues on which the Staff's position changes, or which are newly raised, between the issuance of the Staff Report and the closing record.

I. OBJECTIONS

City objects to the Staff Report as to the following:

1. For reasons explained herein, Cities object to the Staff's revenue increase recommendation. Staff Report at 3.
2. City objects to Staff's adjustment at Schedule C-3.12 in which certain costs related to Miscellaneous O & M are contained and are unjustified. In addition to other

unjustified expenses contained upon Schedule C-3.

3. City objects to Staff's failure to recommend that a full audit of Management Fees paid to American Water Works Service Company ("Service Company") be conducted as part of the review of OAW's next rate case filing. This demand having been made in the previous rate case.

4. Cities object to Staff's recommended rate of return and cost capital analysis. Including but not limited to:

a.) The recommended return on equity does not reflect OAW's poor record of compliance with numerous regulatory commitments since the last rate case and prior rate case mandates. City continues to be of the strong opinion and position that OAW should receive a strong signal in this case that the Commission will not tolerate a poor compliance record. Staff Report at pgs. 4 & 5.

b.) City seeks a reduction to the return on equity for customer service issues related to unaccounted for water, valve maintenance, and tank inspections. In the Opinion and Order in OAW's last two rate cases, the Commission stated "the Commission is putting the applicant on notice that if customer service issues do not improve by the time of the next rate case, there may be an impact on the Commission's determination of the appropriate rate of return." *See In the Matter of the Application of Ohio-American Water Company to Increase its Rates for Water and Sewer Services Provided to its Entire Service Area, et. al*, Case Nos. 03-2390-WS-AJR and 04-339-WW-AAM, Opinion and Order at 14 (February 23, 2005). The many weaknesses identified in the Staff Report

strongly suggest that the time for the Commission to reduce the Company's rate of return is now.

Specifically, Staff Report at page 49 outlines past commitments and failures as to unaccounted for water. It is longover due that the Commission act more aggressively. Clearly, only a rate of return reduction will move OAW to address its' failure to meet past commitments as to unaccounted for water and other items listed above as to its Marion operation.

c) The recommended return on equity also does not reflect OAW's failure to maintain continuing property records that correctly reflect plant additions and associated retirements, replacements, and transfers by plant location; OAW's failure to reflect in plant-in-service, book depreciation reserve, and prior rate case adjustments; and, OAW's failure to keep its books and records so that full information can be furnished for any item included in any account as stated in the 1976 Uniform System of Accounts. These record keeping shortcomings are particularly troublesome because: 1) accurate accounting records form the basis for the proper determination of a rate increase request; 2) the accounting function is performed by the American Water Works Service Company, a sophisticated organization that provides accounting services for water and wastewater companies in 19 different states, owned by American Water Works; and, 3) OAW has included management fees for services not related to Water A.

d.) OAW has failed to comply with past commitments as to Restoration of Property. Staff Report at page 67. It is long over-due that company's attention be

enhanced by reflecting a rate of return reduction.

5. Cities object to Staff's failure to recommend that the water softening surcharge for Water A District (Marion District) be reduced as a result of the water hardness exceeding standards.

City respectfully requests and demands the Commission consider performance issues as part of the basis reviewed in calculating any increase. Rule 4901 :1-15-03, Ohio Administrative Code, states that any waterworks and/or sewage disposal system company, after due notice, that fails to comply with the Commission's rules or Commission order adopted thereunder may be subject to forfeiture to the state of not more than one thousand dollars for each such failure or corrective action to effectuate compliance. Further, the Rule requirements are indicative of whether a water company is rendering "adequate service."

Cities believe that the Commission should consider performance issues as part of the basis reviewed in calculating any increase.

II. SUMMARY OF MAJOR ISSUES

1. The level of increase in rates that Ohio-American will be authorized to implement.
2. The determination of OAW's rate of return.
3. Level and allocation of Service Company Management Fees.
4. Inclusion of amortization of non-recurring expenses.
5. Current revenue and expense effects of the excessive level of Unaccounted-for-Water, and

6. Compliance issue failures identified and attempted to be corrected in past rate cases.

Respectfully submitted,



Mark D. Russell
Law Director -City of Marion, Ohio
233 W. Center St.
Marion, Ohio 43302
Tele: (740) 387-3777
Fax: (740) 382-4921
Law@marionohio.org

June 24, 2008

Attorney for the City of Marion, Ohio

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Motion to Intervene and Memorandum in Support was served upon the following parties of record this 24th day of June, 2008, via electronic transmission, hand-delivery or ordinary U.S. mail, postage prepaid.



June 24, 2008

Mark D. Russell
Law Director -City of Marion, Ohio
233 W. Center St.
Marion, Ohio 43302
Tele.: (740) 387-3777
Fax: (740) 382-4921
Law@marionohio.org

Attorney for the City of Marion, Ohio

Parties served:

Sally W. Bloomfield
Thomas J. O'Brien
Bricker & Eckler, LLP
100 South Third Street
Columbus, Ohio 43215
Phone: (614) 227-2368
Fax: (614) 227-2390
Email: sbloomfield@bricker.com

Henry Eckhart
50 West Broad Street
Suite 2117
Columbus, Ohio 43215-3301
Phone: (614) 461-0984
Fax: (614) 221-7401
E-mail: henryeckhart@aol.com

**On behalf of Ohio-American
Water Company**

Janine L. Migden-Ostrander
Consumer's Counsel
c/o Ann M. Hotz

Gregory J. Poulos
Assistant Consumers' Counsel
Office of the Ohio Consumer's Counsel
10 West Broad Street, Ste. 1800
Columbus, Ohio 43215-3485
614-466-8574 (Telephone)
grady@occ.state.oh.us
yost@occ.state.oh.us
poulos@occ.state.oh.us

**On behalf of the Office of the Ohio
Consumers Counsel**

**On behalf of Drago & Assoc.
Inc. aka Drago Management, Inc.**

Duane Luckey
Assistant Attorney General
Attorney General's Office
Public Utilities Section
180 E. Broad St., 9th Floor
Columbus, Ohio 43215
c/o Thomas Lindgren, Esquire
Fax: (614) 644-8764
**On behalf of the Public Utilities
Commission of Ohio**