

FILE

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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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

DIRECT TESTIMONY

OF

JOHN DRAGOO

ON BEHALF OF DRAGOO AND ASSOCIATES, INC.

AND DRAGOO MANAGEMENT, CO.

Q. Will you please state your name?

A. John Dragoo

Q. What is your business address?

A. Dragoo & Associates, Inc., 127 West Weisheimer Road, Columbus Ohio 43214.

Q. What is your position with Dragoo And Associates, Inc.? ("Dragoo").

A. I am the company's chief financial officer. Dragoo and Associates, Inc. was formerly known as Dragoo Management Co. and our service with Ohio American Water Company ("OAWC") is still in that name. Dragoo and Associates is the management agent for Blendon Square Apartments which receives the water and wastewater from OAWC.

Q. What is the purpose of your testimony in this case?

A. I am offering public testimony as a major customer of OAWC. I believe the records will show that Dragoo is the largest single customer in the Huber Ridge Service area.

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- Q. What is the interest of Dragoo in the pending Application of OAWC in this case?
- A. Dragoo is the Manager of Blendon Square Apartments and is a water and wastewater customer of OAWC in what is known as the Water C Division in the Huber Ridge Subdivision. The property is owned by Blendon Investment Company.
- Q. How long has Dragoo been involved in the management of the Blendon Square apartments?
- A. 32 years.
- Q. What documents have you reviewed in regard to this Application by OAWC?
- A. The Application of OAWC as it relates to the Rates for Water C, the Public Utilities Commission Staff Report, the Objections to the Staff Report filed on behalf of OAWC, the Objections to the Staff Report filed on behalf of the Ohio Consumers' Counsel, ("OCC") and the Direct Testimony of Scott Rubin filed on behalf of the OCC, and the OAW Cost of Service Study, just as they relate to the rate blocks effecting Dragoo.
- Q. What educational experience do you have to do you have to help you understand these matters?
- A. I have a Mechanical Engineering degree (1969) from Cornell University and an MBA Degree from Ohio State University (1985).
- Q. What other experience have you had in regard to the PUCO water and sewer rate proceedings effecting Blendon Square Apartments?
- A. I have been an intervener on behalf of Dragoo in the last Citizens Utilities case in 1998, and the previous Ohio American Water Company case.

Q. What are your primary concerns that you want to have the Commission address in regard to the impact of this case on your business?

A. The primary concerns at the present time are as follows:

1. The water rate for Block 3 in Water C in the original OAWC application was set at \$1.58/ccf for usage over 600/ccf.
2. I felt that the \$1.58/ccf rate was reasonable and was willing to accept that rate.
3. The \$1.58/ccf rate matches the rate OAWC proposed for other 3rd block customers.
4. The OCC is offering testimony from Scott Rubin alleging that the 3rd block rate for Dragoo should be \$2.11/ccf.
5. My position is that the Commission should adopt the 3rd rate block \$1.61/ccf recommended for large quantity users by the Staff
in the Staff Report. (P. 38).
6. It is unfair for the OCC to recommend a much higher rate than the OAWC applied for, the Staff found to be reasonable, and will apply to other large quantity users.
7. The \$2.11/ccf rate that the OCC is recommending improperly includes the costs of recovery of structure/maintenance expenses downstream of the master meter, and which also includes repair and replacement of street mains and fire hydrants.
8. The \$2.11/ccf rate proposed for the Dragoo service is a higher rate than the OCC is recommending for other similar customer usage.

9. The unit production cost of all of the water provided by OAWC is \$0.88/ccf so the \$1.61/ccf rate recommended by the Staff exceeds the cost of the production of the water.
10. Dragoo is in effect a residential customer because all of the ultimate consumers of the water are residential customers. Any cost increase to Dragoo will have to be passed on eventually to the residential customers who occupy the apartments in Blendon Square. Such an increase in the rents of the residents of Blendon Square could make the property non-competitive with neighborhood apartment complexes which have municipal water service.
11. Dragoo is representing 214 water and wastewater customers, with only one meter, one bill, and one customer to deal with, which provides significant economies of scale to OAWC and which have not been recognized in the OCC rate recommendation. Dragoo has always paid its' monthly bill in full, and on time with no expense to OAWC for bad debts, or collection problems.
12. A principal of fairness in rates between the OAWC customers who are large quantity users, such as Dragoo, but which are not being subjected to the OCC proposed rate of \$2.11/ccf is a primary concern.

Q. Do you wish to introduce and sponsor any exhibits for the Commissions consideration?

A. Yes. I am providing an aerial photo of the subject property so that the Commission can be aware of the unique nature of the property as an OAWC customer. I ask the photo be marked as Dragoo Exhibit and I offer it for admission into the record.

Q. Do you have specific problems with the OCC cost of Service Study submitted by Scott Rubin?

A. Yes I do, as follows:

1. His COSS uses Allocation Factor 7 in computing T&D maintenance expenses, but Allocation Factor 7 does not differentiate the Dragoo customer service from other customers. Dragoo has full responsibility for all maintenance expenses over six streets downstream from out master meter.
2. His COSS includes costs for fire hydrant material, labor and depreciation, but Dragoo has full responsibility for all of the fire hydrants downstream from its master meter.
3. His allocation factor for Administrative and General Expenses are rounded to the nearest .0001, but that number is still too high by at least a factor of 10. Dragoo is one customer out of 51,801 and the A & E allocation should be proportional.
4. His depreciation allowance for Distribution mains uses Allocation Factor 7, which does not differentiate the Dragoo service from the other customers, so it does not reflect our responsibility for the installation of all of the main lines downstream for the master meter.
5. His assignment of income taxes and return on investment uses Allocation Factor 18 which is based on an incorrect assignment of original costs to Dragoo. The assignment schedule includes costs for land and transmission mains which are calculated using Allocation Factor 7. This Factor unfairly assigns significant costs to Dragoo because it does not differentiate between the Dragoo service and the

other customers, so it does not reflect the much lower level of investment in infrastructure made by OAWC for Dragoo compared to those other customers.

6. I estimate that the cumulative effect of these errors results in an overstatement of approximately \$12,000.00 in the COSS pertaining to the Dragoo account.

Q. What do you recommend that the Commission do in regard to the 3rd rate block in Water C?

A. I recommend that the commission adopt the \$1.61/ccf rate for the 3rd rate block for water service over 600/ccf.

Q. Does this conclude your testimony?

A. Yes it does. However I reserve the right to supplement my testimony in the event that the Staff or any other party changes its position in regard to the rate design issues affecting the Dragoo service.