

FILE

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RECEIVED-DOCKETING DIV

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

2010 JAN -4 PM 5:01

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. )

391  
Case No. 09-931-WS-AIR

PUCO

TESTIMONY

OF

JOHN DRAGOO

ON BEHALF OF DRAGOO AND ASSOCIATES, INC.

AND DRAGOO MANAGEMENT, CO.

PUCO

2010 JAN -4 PM 4:52

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- 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.? (hereinafter "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 service from OAWC.
- Q. What is the purpose of your testimony in this case?

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- 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.
- 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. 33 years.
- Q. What documents have you reviewed in regard to this Application by OAWC?
- A. Along with my attorney, we have reviewed 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"), 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 two Ohio American Water Company cases.

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 previous case (No. 07-1112-WS-AIR) was set at \$2.1115/ccf for usage over 600/ccf.
2. OAWC promised Dragoo in the settlement of Case No. 07-1112-WS-AIR to do a study of tariff design and cost of service principles specific to Blendon Square Apartments before filing any new rate case.
3. The current application raises the 3<sup>rd</sup> rate block in Water C to 2000/ccf without any supporting justification.
4. We have been denied the opportunity, promised by OAWC, to conduct expert review of the rate study for Blendon Square because no such study was completed or provided.
5. My position is that the Commission should adopt the 3<sup>rd</sup> rate block for Water C that was agreed to by all parties at the conclusion of the Case No. 07-1112-WS-AIR.
6. Blendon Square is the only customer affected by the proposed higher level for Block 3 in Water C, and there is no proper matching of costs to rates.
7. The \$3.942/ccf rate that the OAWC is recommending improperly includes the costs for recovery of structure/maintenance expenses downstream from the

master meter, and it also includes repair and replacement of street mains and fire hydrants which are exclusively the responsibility of Dragoo.

8. In the previous case, all parties agreed that the 3<sup>rd</sup> rate block for Water C should begin at 600 ccf and be fixed at the “base cost of water” without any inclusion of “peak-related costs”. No proper justification has been presented to alter the previous agreement.
9. The PUCO Staff Report states (Page 34, Rates and Revenue Analysis) “The schedules should, to the extent practicable, be predicated upon the costs associated with the particular service rendered”. Raising the 3<sup>rd</sup> rate block for Water C to 2000 ccf violates these guidelines, and serves only OAWC at the expense of one customer, Dragoo.
10. Dragoo is in effect a residential customer because all of the ultimate consumers of the water are residential customers. The proposed 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 will make the property non-competitive with neighborhood apartment complexes which have municipal water service.
11. Dragoo is representing 214 water and wastewater (residential) 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 rate request. Dragoo has always paid its’ monthly bill in full, and on time with no expense to OAWC for bad debts, or collection problems.

12. The PUCO Staff has suggested that the rate blocks for Water A and Water C should match, but the only justification is “uniform tariff pricing”. That request could also be satisfied by lowering the 3<sup>rd</sup> rate block for Water A to match Water C at 600 ccf. Uniform tariff rates might ease the burden of rate analysis, but it does not reflect the very different costs associated with the very different water districts served by OAWC. Rates should reflect costs, and the Huber Ridge service area should not be adversely impacted by costs associated with serving other areas in the State of Ohio.

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 that the photo be marked as Dragoo Exhibit 1 and Counsel will offer it for admission into the record.

Q. Do you have specific problems with the application of a basic COSS to Dragoo?

A. Yes I do, as follows:

1. A basic COSS uses an Allocation Factor in computing maintenance expenses, but that Allocation Factor does not differentiate the Dragoo customer service from other customers. Dragoo has full responsibility for all maintenance expenses over six streets downstream from the master meter.
2. The basic 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. The basic COSS includes an allocation factor for Administrative and General Expenses that assigns an extremely disproportionate share of expense to Dragoo. Dragoo is one customer out of 51,801 and the A & E allocation should be proportional.
4. The basic depreciation allowance for distribution mains uses an allocation factor 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 from the master meter.
5. The assignment of income taxes and return on investment uses an allocation factor 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 an allocation factor which 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.

Q. Do you consider yourself to be an expert in rate design matters.

A. No I do not. I retained the services of a rate design expert, Philip Miller of Riverbend Consulting, in order to analyze the justification for any changes to the rates proposed by OAWC, but no justification was provided. Through my attorney, I made several requests for any documentation or commentary that would support the proposed change in the 3<sup>rd</sup> water rate block, but we received nothing from OAWC or any representative of OAWC. As Mr. Miller stated in his letter to me on

11/10/09, "without that information there is nothing available to review and make an argument for one way or the other". See Dragoo Exhibit 2.

Q. What, specifically, were you promised by OAWC.

A. During the last rate case, I had specific discussions with the attorney representing OAWC and with the General Manager for the Huber Ridge service area for OAWC. Those discussions resulted in the Letter Agreement sent to us on 8/26/08. I would like to present a copy of that letter as Dragoo Exhibit 3. In that agreement, "Ohio American agrees that a person experienced in tariff design and cost of service principles will examine the particular siting and operational aspects of Blendon Square Apartments as a commercial customer to compare and contrast the features of Blendon Square Apartments with Ohio American's other commercial customers with respect to whether cost of service principles as applied to the Blendon Square Apartments support the third rate block charge that applies to Ohio American's commercial customers. The report of his/her findings will be made to Dragoo prior to the filing of Ohio American's next rate case". Without the type of COSS promised by OAWC in its settlement letter, we have been denied the ability to properly examine and defend against any changes from the agreement in the last case.

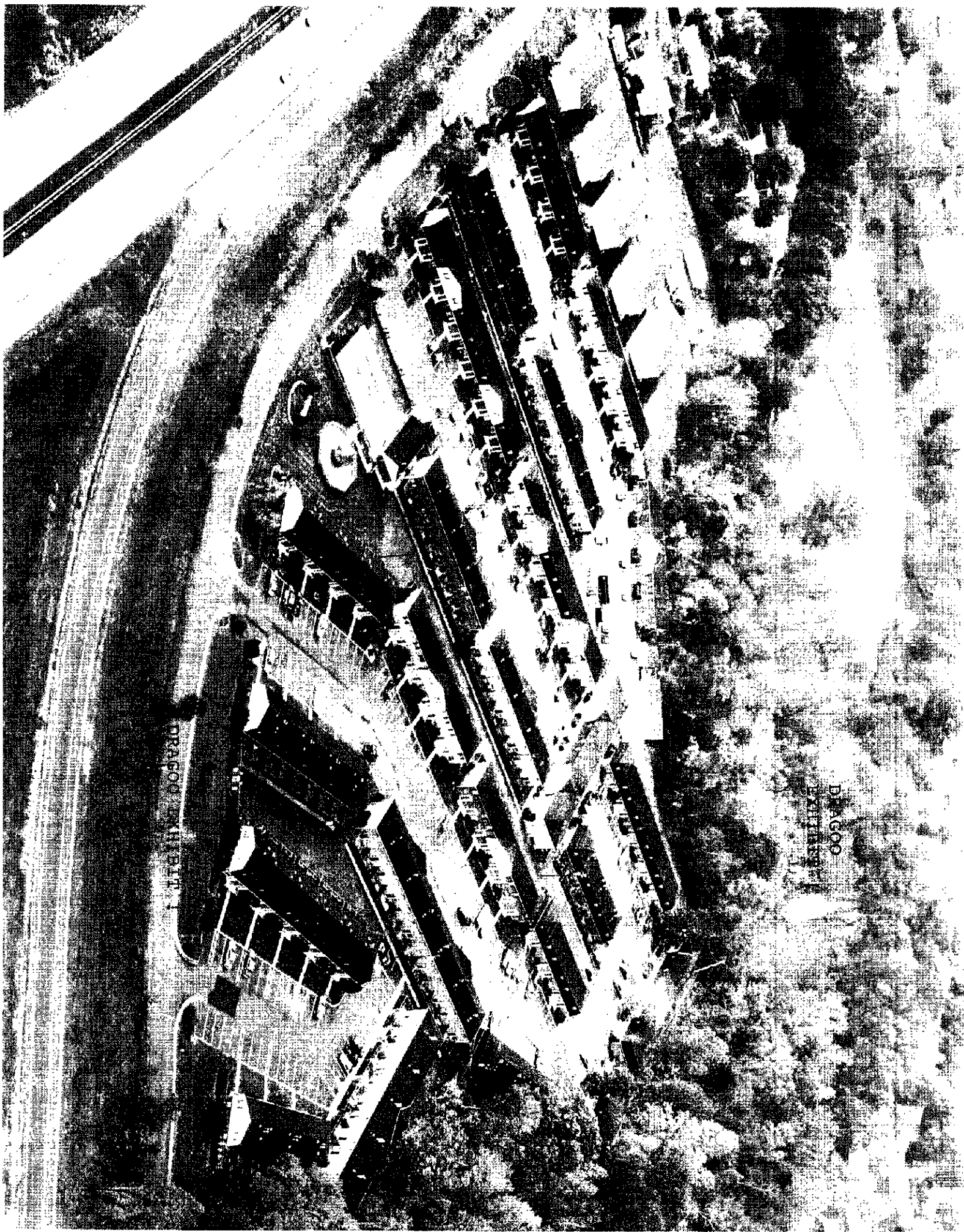
Q. What do you recommend that the Commission do in regard to the 3<sup>rd</sup> rate block in Water C.

A. I recommend that the commission retain the 3<sup>rd</sup> rate block for water service over 600/ccf that was approved by all parties in the previous case.

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.





DRACON

EXHIBIT 1

DRACON EXHIBIT 1

# RIVERBEND CONSULTING

Philip E. Miller  
Principal

1750 Flinthill Drive  
Columbus, Ohio 43223  
(614) 871-5723  
FAX (614) 871-7229

Accounting  
Cost of Service  
Regulatory Services

November 10, 2009

DRAGOO EX. 2

PAGE 1 of 3

Henry W. Eckhart  
Attorney at Law  
50 West Broad Street  
Suite 2117  
Columbus, OH 43215

Dear Henry:

I appreciate the opportunity to assist with the Ohio American Water Company rate case. Unfortunately, it is my feeling that we are too far along in the rate case process for me to be able to provide significant assistance. As you are aware, this case was filed in June so approximately five months of time have elapsed since the filing. As such, it will be extremely difficult to submit discovery, receive the responses, analyze them, and then made a determination of which issues should be pursued in the form of testimony or cross-examination.

In this regard, I have talked with some that are already directly involved in this rate case and it is my understanding that the staff's report is to be filed next week. Of course, once it is filed the clock will commence regarding the filing of any testimony. As mentioned above, this time frame pretty much prohibits me from being able to make a full determination on which issues would be worth pursuing.

Having said this, I will identify some issues that should be of concern to Dragoo & Associates:

## **Cost of Service/Rate Blocks**

There is no doubt that this is the defining issue for your client. In this regard, I have read over the material you provided and it does appear that the Company agreed to provide a cost of service study for the Blendon Square Apartments but they did not. However, without that information there is nothing available to review and make an argument for one way or the other.

I noticed in the testimony of E. Grubb, at page 17, he states that the "second volumetric rate block was not merged for the water tariff groups due to the rate impact it would have on the larger commercial customers in the existing Water C group." Since Blendon Square is essentially a large commercial customer this seems to be an acknowledgment that they are being treated unfairly by the tariff design. I might also add that I am not aware of what customers fall under the Water C group, but this would be something worth knowing.

DRAGOO EX. 2

**Step Increases**

This issue is a large one in that the Company is going to automatically increase its rates for the next three years. I understand the Company's position as to the cost savings that will be generated from not having to file new cases; but all of the projections being used for rate base and operating income are just those, projections. At the minimum it seems that actual data would need to be provided that could then be compared to the projections before the step rates go into effect. But, then there will still be additional costs incurred by everyone so it seems just as logical to just go with the normal rate case filings.

**Test Year**

The test year contains nine months of projected data. This data needs to be compared to the actual results among other things in order to test the validity of the projections.

**Pensions**

This is a significant adjustment to test year operating expenses. This adjustment increases operating expenses by \$655,151 and is the largest expense adjustment. This adjustment is based on actuarial studies that need to be reviewed. The Company has acknowledged that as the economy rebounds that the costs could flow the other way, and has proposed a type of balancing account.

**Insurance**

Insurance costs are being increased by \$331,682. It would be good to know what portion of the costs is borne by the Company and by the employees. Many companies have increased the cost to their employees as the total premiums have increased.

**Other Expenses**

There are other numerous adjustments made to operating expenses, all of which could be called into question if time were available to conduct discovery.

**Federal Income Taxes**

The Company is proposing a large adjustment of almost \$2 million of deferred income taxes.

**Water Sales**

Test year water sales are being reduced by \$1,186,785 for the Water A customers. This is supposedly based upon an analysis of the actual and budgeted bill analysis. It should also be determined how representative the test year was as to weather and the resulting usage.

**Rate Base**

The Company is proposed to include various deferred items in rate base. The validity of this inclusion needs to be determined.

**Rate of Return**

Rate of return is outside my by area of expertise but I note that the Company is asking for a return on equity of 12.20% (overall return of 9.11%). Certainly there are a lot of companies that would like to be earning 12.20% on their common equity!

Henry, I wish there were time to pursue the issues set out above and others. I recall that when I was retained by your client back in 1998 that I had just completed a series of cases for Citizens in Arizona and thus I had already addressed many of the issues that were going to be in the Ohio case. Therefore, I was able to define many of the issues without any significant analysis. However, without that background, and without ample time to really explore the issues set out above, I am not sure what more service I can provide at this time.

If desired, though, I would be willing to look over the staff report when it comes out as well as the testimony of any OCC witnesses to determine if they have sufficiently addressed some of the issues set out above. I doubt, though, that we will see either the staff or the OCC address the most significant issue, that being the changing of the second block up to 2,000 ccf.

Please let me know if you have any questions or if you want me to provide any further service. Please note that the phone numbers on the letterhead have been changed. The best number to reach me is 205-0665.

I am also attaching an invoice for the effort provided to date.

Sincerely,



Phil Miller  
Attachment

COLUMBUS | CLEVELAND  
CINCINNATI-DAYTON

BRICKER & ECKLER LLP  
100 South Third Street  
Columbus, Ohio 43215-4294  
MAIN: 614.227.2300  
FAX: 614.227.2390

www.bricker.com  
info@bricker.com

Betty W. Bloomfield  
614.227.2368  
bbloomfield@bricker.com

August 26, 2008

Henry W. Eckhart, Esq.  
Eckhart Law Offices  
Suite 2117  
50 West Broad Street  
Columbus, OH 43215

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

Dear Henry:

This letter will confirm the commitment and agreement of Ohio American Water Company ("Ohio American") with Dragoo Management Company ("Dragoo") with respect to settling the issues in the above-referenced rate case. Ohio American agrees to maintain the sanitary sewer mains and sanitary manholes in the Blendon Square Apartments complex.

The maintenance activities that Ohio American will undertake include:

- 1) Responding to and investigating reported sewer blockages in the Blendon Square Apartment complex;
- 2) Removing blockages in the sanitary sewer mains and manholes;
- 3) Repairing damaged sanitary sewer mains and manholes from normal wear;
- 4) Preventive cleaning of the sanitary sewer mains and manholes as needed.

Dragoo and Ohio American agree that Ohio American is not responsible for maintenance of any building sanitary sewer line that connects any building or structure to the sanitary sewer mains or manholes. Further Ohio American is not responsible and does not maintain the tap or saddle connection that connects the building to sewer service lines and the sanitary sewer mains or manholes.

Dragoo agrees that the Blendon Square Apartments' management will follow the attached procedure (see Attachment A) with respect to notifying Ohio American of a potential or actual sanitary sewer blockage in the Blendon Square Apartments complex.

**Bricker & Eckler**  
ATTORNEYS AT LAW

Henry W. Eckhart, Esq.  
August 26, 2008  
Page 2

Dragoo on behalf of Blendon Square Apartments will provide direct and unimpeded access to all sanitary sewer mains and manholes. Dragoo on behalf of Blendon Square Apartments' management agrees to have the manhole lids uncovered at or above grade so as to prevent surface stormwater runoff from entering the manhole lids.

It is further agreed that Ohio American is not responsible for restoration of landscaping which may be required to be removed to gain access to the sanitary sewer mains and manholes.

As with all Ohio American customers, Dragoo on behalf of Blendon Square Apartments' management agrees to comply with all of Ohio American's tariff provisions.

Ohio American agrees that a person experienced in tariff design and cost of service principles will examine the particular siting and operational aspects of Blendon Square Apartments as a commercial customer to compare and contrast the features of Blendon Square Apartments with Ohio American's other commercial customers with respect to whether cost of service principles as applied to the Blendon Square Apartments support the third rate block charge that applies to Ohio American's commercial customers. The report of his/her findings will be made to Dragoo prior to the filing of Ohio American's next rate case. }

The commitments by Ohio American and Dragoo will remain in effect until the effective date of the decision by the Public Utilities Commission of Ohio in Ohio American's next rate case.

If asked by the PUCO Staff, I will disclose the broad outlines of this agreement. I believe that there is no requirement to file this letter in the above-referenced case.

Sincerely,

Sally W. Bloomfield

AGREED

Henry W. Eckhart, on behalf of  
DRAGOO MANAGEMENT COMPANY

Dated

DRAGOO EX 3  
PAGE 2 of 3

**ATTACHMENT A****Blendon Square Apartments' Management's  
Procedure for Reporting Sanitary Sewer Backups**

If a sanitary sewer back-up (sometimes called a sewer blockage) is suspected or experienced, the following procedure should be followed so that the problem can be address in the most expeditious time.

- 1) Call Ohio American Water Company (Ohio American) Customer Service Center (24 hour/7 days a week) at:

**1-800-673-5999**

- 2) Provide the Customer Service Representative the following information:

Dragoo Management Company (the billing party)

Blendon Square Apartments

Service Address

Call-Back Phone Number

Nature of the Problem: Sanitary Sewer Blockage – Request Emergency Service Order

The Customer Service Representative may request additional information to better respond to the call.

- 3) Ohio American will dispatch a Field Service Representative to the site and investigate the problem and determine the location of the suspected sewer blockage.
- 4) If the sewer blockage is in the sanitary sewer mains or manholes, Ohio American's crews will clear the sewer blockage. When the sewer blockage has been cleared and the sewer main is open and working properly, the Ohio American Field Service Representative will notify the management's on-site contact that the sanitary sewer main problem has been resolved and there should be no more backups at that time.
- 5) If the Blendon Square Apartments actually had sewage back up onto its property, the apartment management should take actions it believes are appropriate to clean the property that was contaminated by the backup. Ohio American recommends that the apartment management contact the appropriate insurance carrier regarding any insurance coverage.
- 6) If the blockage is not in the sanitary sewer mains or manholes, Ohio American's Field Service Representative will notify the management's on-site contact that the sanitary sewer main was inspected and it has been determined that the sewer blockage is not in the sewer mains or manholes.
- 7) It is Blendon Square Apartments and Dragoo Management Company's responsibility to maintain and clear blockages in the sanitary sewer service line connecting the sanitary sewer main to the building or other structures (club house, pool, etc.).

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Other important Ohio American Water Company phone numbers:

Franklin County District Office

(614) 882-6586

Huber Ridge system ON-CALL Person

(614) 578-5009 (cell)