

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

Case No. 11-4161-WS-AIR

FUCO

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RECEIVED PUBLIC UTILITIES COMMISSION

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

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

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Technician SM Date Processed **FEB-22-2012**

1 **Supplemental Direct Testimony of**

2 **Gary M. VerDouw**

3 **I. WITNESS INTRODUCTION**

4 **Q1. Please introduce yourself.**

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

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

10 A2. Yes.

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

12 A3. I am submitting this testimony pursuant to a Stipulation and Recommendation filed in
13 Case No. 11-5102-WS-ATR and approved by the Commission on February 14, 2012 (the
14 "ATR Stipulation"). I am also sponsoring the ATR Stipulation and Schedule C-2
15 (Revised) as OAW Attachments 2.1.1 and 2.1.2, respectively.

16 **II. STIPULATION FROM CASE NO. 11-5102-WS-ATR**

17 **Q4. What does Case No. 11-5102-WS-ATR concern?**

18 A4. The ATR proceeding is a joint application by American Water Works Company, Inc.
19 ("American Water"), Ohio American Water Company ("OAW") and Aqua Ohio, Inc.
20 ("Aqua") for the purchase of the common stock of OAW by Aqua. The joint applicants
21 in the proceeding, as well as the Office of the Ohio Consumers' Counsel ("OCC") and
22 Commission Staff, filed the ATR Stipulation on January 27, 2012. As a consequence of

1 the Commission's February 14 approval of the ATR Stipulation, Aqua is authorized to
2 purchase the outstanding common stock of OAW from American Water.

3 **Q5. Of what relevance is the ATR Stipulation to this proceeding?**

4 A5. As one of the conditions of approval of the stock purchase, OAW agreed to reduce the
5 level of test year operation and maintenance ("O&M") expense requested in this case
6 from \$22,627,794 to \$20,454,498, the latter figure representing the level of test year
7 O&M expense approved in OAW's last rate case, Case No. 09-391-WS-AIR. (*See*
8 Attachment 2.1.1, ¶ 1(f).)

9 **Q6. Does the ATR Stipulation require OAW to file that stipulation and Schedule C-2**
10 **(Revised) in this proceeding?**

11 A6. Yes, it does. My supplemental testimony and accompanying attachments are being filed
12 as agreed in paragraph 1(f) of the ATR Stipulation.

13 **Q7. Paragraph 1(f) of the ATR Stipulation references a "revised Schedule C-3.2" to**
14 **reflect the O&M adjustment. Why have you instead filed a revised Schedule C-2?**

15 A7. The reference to "Schedule C-3.2" was a scrivener's error. I am advised by counsel that
16 the signatory parties to the ATR Stipulation agree that their intent was to reference
17 Schedule C-2, not Schedule C-3.2.

18 **Q8. Does this conclude your supplemental direct testimony?**

19 A8. Yes.

CERTIFICATE OF SERVICE

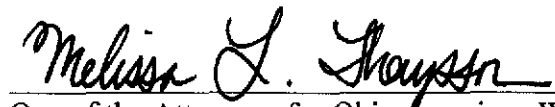
I hereby certify that a copy of the foregoing Supplemental Direct Testimony of Gary M. VerDouw was served by electronic mail on the 21st day of February, 2012, to the following:

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One of the Attorneys for Ohio American Water
Company

OAW ATTACHMENT 2.1.1

**Stipulation and Recommendation
filed in Case No. 11-5102-WS-ATR
on January 27, 2012**

This Stipulation and Recommendation, which shall be designated as Joint Exhibit 1, is supported by adequate data and information; represents, as an integrated and complete document, a just and reasonable resolution of all issues in this proceeding; violates no regulatory principle or precedent; is in the public interest; and is the product of lengthy, serious bargaining among knowledgeable and capable parties, and parties that are representative of various interests and stakeholders in a cooperative process undertaken by the Signatory Parties. While this Stipulation and Recommendation is not binding on the Commission, where, as here, it is sponsored by parties representing a significant cross section of interests, including the Commission's Staff, it is entitled to careful consideration by the Commission.

Except for enforcement purposes, neither this Stipulation nor the information and data contained herein or attached, nor the Commission's Order and/or Entry in this proceeding shall be cited as precedent, in any future proceeding for or against any Signatory Party, or the Commission itself, if the Commission approves this Stipulation and Recommendation.

For purposes of resolving certain issues raised by this proceeding, the Signatory Parties stipulate, agree and recommend as follows:

1. Aqua's purchase of 100% of the outstanding common stock of Ohio-American should be approved by the Commission. Staff and the other Signatory Parties recommend such approval by not later than February 15, 2012, subject to the terms and conditions of this Stipulation.

- a. The Signatory Parties agree and recommend that the Commission find that Aqua has the financial, managerial and technical capability to provide safe, adequate and reliable water and wastewater service in areas currently served by Ohio-American, without detriment to existing customers of Aqua or Ohio-American.¹
- b. Prior to the Closing Date (as defined in the Stock Purchase Agreement, attached to the Joint Application as Exhibit A), Aqua and Ohio-American shall coordinate such actions as are necessary to provide for the orderly transfer of customer accounts from Ohio-American to Aqua, and Aqua and Ohio-American shall otherwise ensure that service to customers will be adequate and not interrupted during the transition process.
- c. American Water Works Service Company, Inc. ("AWW Service Company") currently provides a number of services to support Ohio-American's operations. The primary functions of AWW Service Company that support service to Ohio-American customers are: 1) the Customer Service Sector, 2) Central Water Testing Laboratory, 3) Information Technology Service Center, and 4) Shared Service Center. Aqua has made provisions to supply such services on and

¹

This Stipulation does not in any way limit or preclude OCC, the PUCO Staff and other parties from raising and litigating issues related to service quality in any pending or future cases.

after the Closing Date in an adequate and reliable manner to customers with no interruption or diminution of service.

- d. On and after the Closing Date, the customers served by Ohio-American will continue to receive service pursuant to the rates, rules and terms of service provided in Ohio-American's tariffs in effect as of the Closing Date. Following any rate change pursuant to Ohio-American's pending application in Case No. 11-4161-WS-AIR, Aqua, Ohio-American or its successor will charge the rates ordered by the Commission. No changes to Ohio-American's name, its tariff provisions or other material aspects of its operations which are subject to Commission jurisdiction shall be made except upon an appropriate application, filed with the PUCO in conformance with applicable law and rules, and Final Orders approved by the Commission. However, the Signatory Parties specifically retain any and all legal rights, if any, and remedies to appeal, if any, from any other decision or order.
- e. Aqua, Ohio-American or Ohio-American's successor shall notify, in writing, the Director of the PUCO's Utilities Department and all Signatory Parties of the closing of the Stock Purchase Agreement within two business days thereof.
- f. Ohio-American's pending application in Case No. 11-4161-WS-AIR ("Pending Rate Case") seeks a rate increase based on a test year

ending December 31, 2011, and date certain of April 30, 2011.

Because any change in Operation and Maintenance expense that may occur under the ownership and management of Aqua during the rate effective period cannot necessarily be known with certainty at this time, the Signatory Parties recommend to the Commission and agree that test year Pro Forma Operation and Maintenance expense in the Pending Rate Case remain at the level approved as just and reasonable in Case No. 09-391-WS-AIR. Accordingly, as a condition of approval of the Joint Application, Ohio-American shall file with the Commission supplemental testimony in the Pending Rate Case sponsoring a revised Schedule C-3.2 that reflects an adjustment to reduce Total Company Adjusted Operation and Maintenance Expense requested in Case No. 11-4161-WS-AIR from \$22,627,794 to \$20,454,498. Ohio-American shall file such supplemental testimony within five business days of issuance of a Final Order approving this Stipulation. Ohio-American will also file a fully executed, time stamped copy of this Stipulation and Recommendation as an exhibit to the supplemental testimony. Except for the Operation and Maintenance adjustment in the Pending Rate Case described in paragraph 1(f) of this Stipulation, all other issues regarding Ohio-American's pending application in Case No. 11-4161-WS-AIR (including, but not limited to, the following: revenues, depreciation

and amortization expense, federal income taxes, other taxes, gross revenue conversion factor, plant in service, accumulated depreciation, working capital, other rate base items, cost of capital, rate design, revenue distribution and allocations) will be determined in Case No. 11-4161-WS-AIR.

- g. Aqua, Ohio-American and Staff acknowledge that the commission may approve the application under R.C. 4905.48 without notice or public hearing. Aqua, Ohio-American and Staff, agree that issues of notice and hearing would be more appropriately addressed in the subsequent filings contemplated in paragraph 1(d) of this Stipulation. Accordingly, Aqua, Ohio-American and Staff recommend and agree that this Stipulation be approved without public notice or a hearing.²
- h. The Signatory Parties recommend that the Commission dismiss Case No. 11-5103-WS-AAM upon adoption of this Stipulation.

2. The following exhibits should be admitted into the record:

Joint Exhibit 1.0	Stipulation and Recommendation
Applicant Exhibit 1.0	Joint Application filed Sept. 13, 2011
Applicant Exhibit 2.0	Correspondence from M. Yurick filed Sept. 13, 2011

² OCC is not agreeing to paragraph 1(g) of this Stipulation, but OCC will not be taking a further position on this paragraph for purposes of this case.

Applicant Exhibit 3.0	Original Verification Pages of Cristy Wheeler and Roy Stahl filed Oct. 20, 2011
Joint Exhibit 2.0	Supplement to Joint Application filed on January 23, 2012.
Applicant Exhibit 4.0	Motion to Dismiss Application for Accounting Authority

3. The Signatory Parties agree that this Stipulation and Recommendation is entered into as an overall compromise and resolution of all issues presented in this proceeding, and does not necessarily represent the position any Signatory Party would have taken had these issues been fully litigated. This Stipulation and Recommendation represents an agreement by all Signatory Parties to a package of provisions rather than an agreement to each of the individual provisions included within the Stipulation and Recommendation.
4. This Stipulation represents a reasonable compromise of varying interests. This Stipulation is expressly conditioned upon adoption in its entirety by the Commission without material modification by the Commission; provided, however, that each Signatory Party has the right, in its sole discretion, to determine whether Commission approval of this Stipulation and Recommendation constitutes a "material modification" thereof. Should the Commission reject or materially modify all or any part of this Stipulation, the Signatory Parties shall have the right, within thirty days of issuance of the Commission's order, to file an application for rehearing or withdraw

from the Stipulation by filing a notice with the Commission in this proceeding and serving all Signatory Parties. The Signatory Parties agree that they will not oppose or argue against any other Party's application for rehearing that seeks to uphold the original, unmodified Stipulation. Upon the Commission's issuance of an entry on rehearing that does not adopt the Stipulation in its entirety without material modification, any Signatory Party may file an application for rehearing or withdraw from the Stipulation by filing a notice with the Commission within thirty days of the Commission's entry on rehearing. The Signatory Parties to the Stipulation agree not to oppose the withdrawal and termination of the Stipulation by any other Signatory Party in accordance with this paragraph. Upon notice of termination or withdrawal by any Signatory Party, pursuant to the above provisions, the Stipulation shall immediately become null and void. In such event, this proceeding shall go forward at the procedural point at which this Stipulation and Recommendation was filed, and the Signatory Parties will be afforded the opportunity to present evidence through witnesses, cross-examine all witnesses, present rebuttal testimony, and brief all issues which shall be decided based upon the record and briefs as if this Stipulation and Recommendation had never been executed.

5. Except for the Operation and Maintenance adjustment in the Pending Rate Case described above in paragraph 1(f), this Stipulation and Recommendation is submitted for purposes of this proceeding only, and is neither bind-

ing in any other proceeding, nor is it to be offered or relied upon in any other proceeding, except as necessary to enforce the terms of this Stipulation and Recommendation.

6. Aqua agrees to begin providing OCC with copies of the quarterly disconnection reports that Aqua currently provides to PUCO Staff.
7. The Signatory Parties agree and recommend that the Commission issue a final Opinion and Order in this proceeding, ordering the adoption of this Stipulation and Recommendation, including the terms and conditions agreed to in this Stipulation and Recommendation by all Signatory Parties.

The undersigned hereby stipulate and agree and each represents that it is authorized to enter into this Stipulation and Recommendation this 27th day of January, 2012.

This Stipulation and Recommendation may be signed in counterparts.

**American Water Works Company, Inc.
and Ohio-American Water Company**

By: Mark Whitt / <sup>DDP*
sig. authority
on 1/27/12</sup>
Counsel

Date: 1/27/12

Aqua Ohio, Inc.

By: Mark Yarnick / <sup>DDP
sig. authority
on 1/27/12</sup>
Counsel

Date: 1/27/12

**The Staff of the Public Utilities
Commission of Ohio**

By: Devin D. Parram
Counsel

Date: 1/27/12

**The Office of the Ohio Consumers'
Counsel**

By: Kyle Kern / <sup>DDP sig. authority
on 1/27/12</sup>
Counsel

Date: 1/27/12

* DDP - Devin D. Parram, Counsel for Staff

OAW ATTACHMENT 2.1.2

Schedule C-2 (Revised)

OHIO AMERICAN WATER COMPANY

Rate Case No. 11-4161-WS-AIR

Jurisdictional Adjusted Operating Income at Current Rates

For the Twelve Months Ended December 31, 2011

Adjusted to Reflect Stipulated Operations & Maintenance Expense Per Case No. 11-5102-WS-ATR

Data: 4 Months Actual and 8 Months Estimated
 Type of Filing: Original Updated
 Work Paper Reference No(s): No Workpapers
 X Revised
 Schedule C-2
 Page 1 of 2
 Witness Responsible: G. M. VerDow

Line No.	Account Title	Water A			Water C			Wastewater			Total		
		Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp
1	Operating Revenues												
2	Water Sales	\$ 29,144,394	\$ (485,981)	\$ 28,658,413	\$ 5,043,755	\$ 316,883	\$ 5,360,638	\$ -	\$ -	\$ -	\$ 34,188,149	\$ (169,098)	\$ 34,019,051
3	Wastewater Revenues	-	-	-	-	-	-	3,696,483	383,019	4,079,502	3,696,483	383,019	4,079,502
4	Other Operating Revenues	742,228	(51,875)	690,353	155,336	17,981	173,317	27,284	-	27,284	924,848	(33,894)	890,954
5	Total Operating Revenues	\$ 29,886,622	\$ (537,856)	\$ 29,348,766	\$ 5,199,091	\$ 334,864	\$ 5,533,956	\$ 3,723,767	\$ 383,019	\$ 4,106,786	\$ 38,809,480	\$ 180,028	\$ 38,989,508
6	Operating Expenses												
7	Labor	\$ 4,057,806	\$ 249,008	\$ 4,306,813	\$ 825,914	\$ (51,702)	\$ 774,213	\$ 295,379	\$ 170,780	\$ 466,159	\$ 5,179,099	\$ 368,086	\$ 5,547,185
8	Purchased Water	996,382	(81,546)	914,836	173,380	(13,306)	160,074	-	-	-	1,169,762	(94,852)	1,074,910
9	Fuel & Power	937,765	36,522	974,287	220,404	(56,868)	163,536	235,957	(24,517)	211,440	1,394,126	(44,863)	1,349,263
10	Chemicals	1,201,212	(63,646)	1,137,566	220,321	(1,292)	219,029	2,907	15,739	18,646	1,424,440	(49,199)	1,375,241
11	Waste Disposal	165,858	10,122	175,980	15,996	(3,788)	12,208	219,163	(62,406)	156,757	401,017	(56,072)	344,945
12	Support Services	3,158,274	(1,495,249)	1,663,025	393,249	(84,516)	308,733	271,699	(73,495)	198,204	3,823,222	(1,653,260)	2,169,962
13	Group Insurance	1,385,299	(164,028)	1,221,271	266,813	(64,912)	201,902	70,101	62,204	132,305	1,722,213	(166,735)	1,555,478
14	Pensions	568,230	21,511	589,741	101,470	(2,826)	98,644	20,294	57,186	77,480	689,994	75,871	765,865
15	Regulatory Expense	286,146	(20,676)	265,470	35,629	13,655	49,284	24,617	7,024	31,640	346,392	3	346,395
16	Insurance Other than Group	406,753	14,762	421,515	63,723	10,784	74,507	42,190	12,072	54,263	512,666	37,618	550,284
17	Customer Accounting	729,123	174,104	903,227	113,117	82,699	195,815	71,864	59,618	131,482	914,103	316,421	1,230,524
18	Rents	112,644	(6,974)	105,670	13,047	1,050	14,097	309	1,010	1,319	126,000	(4,914)	121,086
19	General Office Expense	239,890	(11,685)	228,205	81,876	(14,421)	67,455	10,325	15,437	25,762	332,091	(10,669)	321,422
20	Miscellaneous	1,781,296	(53,215)	1,728,081	384,613	62,167	446,780	175,316	(6,811)	168,505	2,341,225	2,141	2,343,366
21	Other Maintenance	924,293	178,162	1,102,455	174,336	17,450	191,786	39,309	25,022	64,332	1,137,939	220,633	1,358,572
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30													
31	Total O&M Expenses	\$ 16,950,972	\$ (1,212,829)	\$ 15,738,142	\$ 3,083,888	\$ (105,825)	\$ 2,978,063	\$ 1,479,429	\$ 258,864	\$ 1,738,293	\$ 21,514,288	\$ (1,059,790)	\$ 20,454,498
32	Depreciation	\$ 2,961,093	\$ (144,176)	\$ 2,816,917	\$ 501,022	\$ (71,993)	\$ 429,029	\$ 468,250	\$ 81,115	\$ 549,365	\$ 3,930,365	\$ (135,054)	\$ 3,795,311
33	Amortization	652,971	(622,489)	30,483	93,137	(90,804)	2,333	60,518	(60,518)	-	806,626	(773,810)	32,816
34	Taxes Other than Income:												
35	Real & Personal Property Taxes	3,704,870	892,364	4,597,235	1,833,582	(855,642)	977,941	354	914,921	915,276	5,538,807	951,644	6,490,451
36	Gross Receipts Taxes	1,368,821	(68,832)	1,299,989	1,18,382	140,944	259,326	273,782	(81,155)	192,627	1,760,985	(9,043)	1,751,942
37	Payroll Taxes	314,062	15,839	329,901	64,067	(2,777)	61,289	23,257	2,894	26,151	401,386	15,956	417,342
38	PUCO and OCC Fees	40,725	1,207	41,932	7,013	1,299	8,312	6,233	(65)	6,168	53,972	2,440	56,412
39	Other Taxes & Licenses	88,447	-	88,447	23,646	-	23,646	13,058	-	13,058	125,151	-	125,151
40													
41	Utility Operating Income before FIT	\$ 3,804,659	\$ 601,060	\$ 4,405,720	\$ (525,646)	\$ 1,319,662	\$ 794,016	\$ 1,398,886	\$ (733,037)	\$ 665,849	\$ 4,677,900	\$ 1,187,685	\$ 5,865,585
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43													
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OHIO AMERICAN WATER COMPANY
Rate Case No. 11-4161-WS-AIR
Jurisdictional Adjusted Operating Income at Current Rates
For the Twelve Months Ended December 31, 2011
Adjusted to Reflect Stipulated Operations & Maintenance Expense Per Case No. 11-5102-WS-ATR

Data: 4 Months Actual and 8 Months Estimated

Type of Filing: ☐ Original ☐ Updated ☒ Revised

Work Paper Reference No(s): No Workpapers

Schedule C-2

Page 2 of 2

Witness Responsible: G. M. VerDouw

Line No.	Water A			Water C			Wastewater			Total Company			
	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	Test Year Rev & Exp	Adjustments	Adjusted Rev & Exp	
1													
2													
3	Income Taxes:												
4	Federal Income Taxes - Current	95,267	\$ (110,723)	\$ (15,456)	8,239	\$ 51,660	\$ 59,899	19,055	\$ 212,345	\$ 231,400	122,561	\$ 153,282	275,842
5	Deferred Federal Income Taxes	497,829	(234,935)	262,894	43,055	(52,629)	(9,574)	99,572	(192,188)	(92,616)	640,456	(479,752)	160,704
6	Investment Tax Credit	(603)	(1,725)	(2,328)	(52)	52	-	(121)	121	-	(776)	(1,552)	(2,328)
7													
8	Sub-total Income Taxes	\$ 592,493	\$ (347,383)	\$ 245,110	\$ 51,242	\$ (917)	\$ 50,325	\$ 118,506	\$ 20,278	\$ 138,784	\$ 762,241	\$ (328,022)	\$ 434,218
9													
10													
11													
12	Total Operating Income	\$ 3,212,166	\$ 948,444	\$ 4,160,610	\$ (576,887)	\$ 1,320,579	\$ 743,692	\$ 1,280,379	\$ (753,315)	\$ 527,065	\$ 3,915,659	\$ 1,515,708	\$ 5,431,366

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