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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

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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. 06-433-WS-AIR

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**JOINT OBJECTIONS TO THE  
STAFF REPORT OF INVESTIGATION AND  
SUMMARY OF MAJOR ISSUES  
OF THE CITIES OF TIFFIN AND MARION**

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October 25, 2006

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and Marion, Ohio**

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Pursuant to Section 4909.19, Revised Code, Rule 4901-1-28, Ohio Administrative Code, and the Attorney Examiner's Entry dated September 28, 2006, the City of Tiffin, Ohio ("Tiffin") and the City of Marion, Ohio ("Marion") (collectively "Cities") hereby file their Objections to the Staff Report of Investigation ("Staff Report") in the above-captioned matter. The Staff Report was filed with the Public Utilities Commission of Ohio ("Commission") on September 25, 2006, setting forth its findings regarding Ohio-American Water Company's ("OAW") application for authority to increase its rates for water service. OAW filed its Application on April 17, 2006. In submitting the Objections listed below, Cities specifically reserve 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 of the record.

## I. OBJECTIONS

Cities object to the Staff Report in the following particulars:

1. For reasons explained herein, Cities object to the Staff's revenue increase recommendation. Staff Report at 2.

2. Cities object to Staff's adjustment at Schedule C-3.12 in which certain costs related to the Orcom billing software are amortized to expense over 3 years. *Id.* at 180. As Staff states on page 15 of the Staff Report, the adjustment recognizes 2003 and 2004 charges related to the January 2003 Accenture contract. As these costs did not occur within the test year and they are not recurring costs, the adjustment on Schedule C-3.12 should be eliminated.

3. Cities object to Staff's failure to recommend that a full audit of Management Fees paid by OAW to American Water Works Service Company ("Service Company") be conducted as part of the review of OAW's next rate case filing, to verify that the Management Fees are being appropriately allocated to OAW. This is not to infer that any improprieties exist in Service Company allocations to OAW but, rather, the need for thorough verification of the costs, as they are very significant costs to OAW. In response to a Staff data request, OAW indicated that in this case, it is requesting an increase of \$859,109 (39%) in Management Fees expense over the level in the last rate case. These higher expenses represent approximately one-sixth of the total rate increase that OAW requested in this proceeding. (Staff has recommended that the \$859,109 increase be reduced by approximately \$20,000 as a result of disallowing costs for lobbying and advertising expenses, donations and membership dues. *Id.* at 16.) Among the reasons cited by OAW for the higher Management Fees were

new functions, which included maintenance, environmental, network, and supply chain, as well as "increased scope and breadth of service," which included corporate administrative, external affairs, and human resources. In the case of the human resources function, information in the data request response indicated that human resources and human resource benefits coordination are now provided to OAW from three different Service Company locations, including the Corporate Service Company in Voorhees, New Jersey, the Shared Services Center in Cherry Hill, New Jersey, and the Central Region office in Creve Coeur, Missouri. Human resource costs to OAW from these locations have increased by \$87,810, \$227,274, and \$139,000 respectively. A Service Company charge audit would help to assure that OAW is paying only its fair share of appropriate Service Company Management Fees.

4. Cities object to Staff's recommended rate of return and cost of capital analysis. *Id.* at 18.

a) The recommended return on common equity does not reflect that since RWE Aketingsellschaft ("RWE") acquired OAW's former parent company, American Water Works Company, several capital improvement projects have been tabled. *Id.* at 87. An important project to the Marion District is the replacement of the lime and soda ash slakers, both of which are essential pieces of equipment for the softening process. This project has been in OAW's budget for many years; however, OAW has continually deferred the purchase. This has a negative effect upon OAW's operations and the quality of service provided to its customers and should have been considered in the Staff's recommendation.

b) The recommended return on equity also does not reflect OAW's poor record of compliance with numerous regulatory commitments since the last rate case, as well as OAW's record keeping for field work, including leak detection, hydrant painting and flushing, valve operation and maintenance, and unaccounted for water reduction. *Id.* at 77. Although the Staff recommends that OAW be subject to a future one-time potential contingent regulatory liability for failure to meet a Commission-ordered recommendation in several of these areas, OAW should receive a strong signal in this case that the Commission will not tolerate a poor compliance record.

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 and book depreciation reserve certain 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. *Id.* at 10. 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 over \$3 million for management fees for services such as accounting, for recovery from Ohio ratepayers.

d) Moreover, Staff did not recommend 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 rate case, 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-AIR 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.

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 on 21.5% of the days measured, over a 516 day period. Staff Report at 87. This means that on average, a customer receiving softening services for Water A District had his or her water exceed the hardness standards for nearly a full week out of every month. By comparison, the Lake Darby District exceeded hardness standards on 7.4% of the days measured. Staff explained in the Staff Report that the lime and soda ash slakers (also referred to in paragraph 2 above) have a history of break-downs that may be one of the primary reasons for the 111 days of production above the hardness standard. In Staff's computation of the softening surcharge on page 64 of the Staff Report, the total Water A softening costs computed

by Staff are \$749,765. Similar to the unaccounted for water adjustment, in which chemical and purchased power expenses are disallowed if the unaccounted for water exceeds 15%, it would be appropriate for a portion of the water softening costs to be disallowed for OAW's failure to meet the hardness standards more consistently. Customers that receive softening service in Water A District would pay over 33 cents per CCF (\$0.3326) for that service under Staff's proposed rate, an increase of 16% from the current rate of \$0.2867/CCF. Staff's recommendation that OAW complete the replacement of the lime and soda ash slakers as currently scheduled (2006 – 2007) is inadequate. *Id.* at 88. Cities believe that the Commission should consider performance issues as part of the basis reviewed in calculating any increase.

6. Cities object to Staff's recommendation that the Dishonored Payment Charge be increased from \$21.25 to \$22.40. *Id.* at 52. This increase is not being requested by OAW.

7. Cities object to Staff's recommendation that the Account Activation Charge be increased from \$8.00 to \$25.00. *Id.* at 53. An increase of this magnitude is not being requested by OAW.

8. Cities object to Staff's recommendation that the Reconnection Charge be increased from \$31.50 to \$45.00. *Id.* An increase of this magnitude is not being requested by OAW.

9. Cities object to Staff's recommendation regarding unaccounted for water ("UFW"). *Id.* at 80. Specifically, the Staff Report identified that OAW has failed to reduce UFW, notwithstanding its commitment in the Stipulation and the Commission's order in the 2001 rate case. The Staff Report indicates that OAW continues to fail to

meet the 15% standard and has also failed to satisfy other aspects of the Stipulation. Nonetheless, the Staff Report fails to recommend any meaningful remedy for these violations. Staff's recommendation that the Commission order Ohio-American to submit another remedial action report is inadequate. Further, it is evident that Staff's recommendation that the Commission order OAW to provide a one time credit of \$10,000 if OAW fails to comply with any one of three directives regarding UFW (including providing remedial action reports for the seven systems with ratios above 15% during the test period within 30 days of the Opinion and Order in this case, providing updated remedial action plans quarterly and reducing each system's unaccounted for water to less than 15% within 12 months) is neither an adequate corrective measure nor a sufficient incentive for OAW to take the proper action to remedy this chronic problem inasmuch as OAW paid a similar \$10,000 credit to customers in January 2006 and yet the UFW problem continues. *Id.* at 79-80.

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 rate increase.

10. Cities object to Staff's recommendation that all references to gallons be deleted from customers' bills. *Id.* at 49. Cities believe that gallons provide customers



with a much more meaningful comparison measure in understanding their consumption, than a figure in hundred cubic feet (CCF).

11. Cities object to Staff's recommendation that OAW provide Staff with annual meter reading and encoder data reports for all metered districts on a semi-annual basis inasmuch as it is not an adequate remedy. *Id.* at 81. While it is not clear from the Staff Report whether Staff recommends that OAW pay a credit of \$10,000 for failure to read 818 out of 918 inside meters for the Marion district in 2005 or only for OAW to pay a credit going forward for failing to substantially complete the encoder meter change out program, Cities object to Staff's recommendation regarding OAW's failure to comply with the Commission's meter reading requirements. *Id.*

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 rate increase.

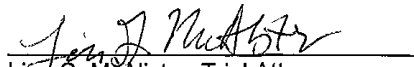
## **II. SUMMARY OF MAJOR ISSUES**

The major issues in this case will be:

1. The level of increase in rates that Ohio-American will be authorized to implement;
2. The determination of Ohio-American's Rate of Return;
3. The level and allocation of Service Company Management Fees;

4. The inclusion of a three year amortization of non-recurring expenses;
5. The increases in the Dishonored Payment, Account Activation and Reconnection charges;
6. The current revenue and expense effects of the excessive level of Unaccounted-for-Water; and
7. Compliance issues associated with the Stipulation in the last rate case (Case No. 01-626-WW-AIR).
8. Quality of service.

Respectfully submitted,

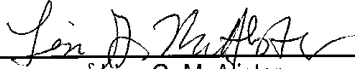


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## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *The Joint Objections to Staff Report of Investigation and Summary of Major Issues of the Cities of Tiffin and Marion* was served upon the following parties of record this 25th day of October 2006, via electronic transmission, hand-delivery, or ordinary U.S. mail, postage prepaid.

  
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