

REDACTED

DIRECT TESTIMONY

of

THERESA EBREY

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Confidential Information Identified As
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Aqua Illinois, Inc.
Vermilion Division

Proposed General Increase in Water Rates

Docket No. 04-0442

September 15, 2004

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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Theresa Ebrey. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 Q. By whom are you employed and in what capacity?

6 A. I am currently employed as an Accountant in the Accounting Department of the
7 Financial Analysis Division of the Illinois Commerce Commission ("ICC" or
8 "Commission").

9 Q. Please describe your professional background and affiliations.

10 A. I have a Bachelor of Science degree in Accounting from Quincy University
11 (formerly known as Quincy College). I am a Certified Public Accountant, licensed
12 to practice in the State of Illinois. My prior accounting experience includes 15
13 years as the corporate controller of a large long-term care facility in Illinois, as
14 well as a period of time employed as an outside auditor of governmental
15 agencies. I joined the Staff of the Illinois Commerce Commission ("Staff") in April
16 1999.

17 Q. Have you previously testified before any regulatory bodies?

18 A. Yes. I have testified on several occasions before the Commission.

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

20 A. I have reviewed and analyzed Aqua Illinois, Inc. ("Aqua" or "Company") Vermilion
21 Division's ("Vermilion", or "Division") filing, and the underlying data.

22 The purpose of my testimony is to propose adjustments to Wages and Salaries
23 Expense, Capitalized Payroll, Payroll Tax Expense, Incentive Compensation
24 Expense, Workers Compensation Insurance Expense, Advertising Expense,
25 Charitable Contributions, Materials and Supplies, Membership Dues, Lobbying
26 Fees and Collections Expense.

27 Schedule Identification

28 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?

29 A. Yes. I am sponsoring the following schedules for the Company, which show data
30 as of, or for the test year ending December 31, 2005:

31	Schedule 2.1	Adjustments to Payroll
32	Schedule 2.2	Adjustment to Payroll Tax Expense FICA
33	Schedule 2.3	Adjustment to Payroll Tax Expense SUTA
34	Schedule 2.4	Adjustment to Payroll Tax Expense FUTA
35	Schedule 2.5	Adjustment to Incentive Compensation
36	Schedule 2.6	Adjustment to Workers Compensation Insurance Expense
37	Schedule 2.7	Adjustment to Advertising Expense

56 budgeting process, which has proven inaccurate, my adjustments are necessary
57 to more accurately reflect the amount of test year payroll costs. Data provided by
58 the Company indicate that Payroll Expense has been over budgeted an average
59 of 11.88% over the last three and one-half years while Capitalized Payroll has
60 been under budgeted 9.71% over the same period.

61 Q. How did the Company explain the variances?

62 A. In response to Staff data request TEE 1.03, the Company stated that there has
63 been a "higher amount of labor capitalized than budgeted" and a "higher reliance
64 on other outside contractual services rather than the existing in-house labor
65 force".

66 Q. How has historical budgeted capitalized labor compared to historical actual
67 capitalized labor?

68 A. Staff requested this information in data requests TEE 5.12 and TEE 5.13, which
69 were due on August 25, 2004. However, Staff did not receive the responses until
70 September 7, 2004. During 2001 through 2003, there was a general upward
71 trend in under budgeting capitalized payroll. For the first six months of 2004, the
72 Company appears to be running on budget for capitalized payroll.

73 Q. Explain why you make an adjustment to capitalized labor based on the
74 information obtained from the Company?

75 A. The Company has a three-year history of under budgeting capitalized payroll,
76 while the data consistent with on-budget performance covers a very short and
77 incomplete (part of a year) time period. In addition, I am not aware of any
78 information indicating changes in the Company's budgeting process, nor am I
79 aware of other information indicating why it would be reasonable to assume or
80 expect a change in the Company's budgeting performance. Thus, my
81 adjustment to increase capitalized payroll reflects the average payroll variance
82 over the three and one-half year period for which the Company provided data
83 (January 2001 through June 2004). This adjustment accounts for the recent on
84 budget performance, while also accounting for the historical under budgeting of
85 capitalized payroll expense.

86 Q. Has Staff been able to verify the Company's statement regarding a "higher
87 reliance on other outside contractual services"?

88 A. No. Staff requested information regarding the Company's higher reliance on
89 other outside contractual services in data requests TEE 5.09, TEE 5.10, and TEE
90 5.11, which were due on August 25, 2004. Staff received those responses on
91 September 7, 2004. This did not allow me sufficient time to analyze the 119
92 pages of data provided. The Company's explanation, even if true, does nothing
93 to mitigate or explain away the Company's extended history of over budgeting
94 Payroll Expense.

95 Q. Did Staff perform any additional analysis with respect to the level of payroll for
96 the test year?

97 A. Yes. In analyzing the budget variances between actual and budgeted positions,
98 Staff determined that the Company's originally filed schedules were incorrect.
99 The Company, in response to Staff data requests TEE 3.03 and TEE 3.04,
100 revised Schedules C-11.2a and C11.2b for calendar years 2002 through the
101 2005 test year. Numbers for *actual* employees were provided for calendar years
102 2002 and 2003 only, with budgeted numbers substituted for the actual 2004 and
103 2005 employee counts. The analysis of the revised schedules shows that over
104 the two-year period, the Company had over budgeted its employee numbers in
105 23 of the 24 months (Attachment A).

106 Q. Did you perform further review?

107 A. Yes. In an attempt to verify the actual numbers of employees the Company
108 included on the revised Schedule C-11.2a, Staff reviewed Aqua's Illinois
109 Unemployment Tax Returns for 2002 and 2003. The inconsistencies in actual
110 numbers of employees reported on these documents leads Staff to a decreased
111 reliance on the employee counts provided by the Company in this proceeding.
112 The numbers of employees reported on the tax returns were less than the
113 numbers of actual employees reported on the Revised Schedule C-11.2a in 19 of
114 the 24 months compared; in two months the tax returns reported higher numbers
115 of employees; and in only two months the tax returns reported the same numbers

116 of employees (Attachment A). Staff asked for a reconciliation of those variances
117 in data request TEE 3.03; no explanation was given for the differences in the
118 Company's response. Although the Company has not explained why the number
119 of employees reported on its tax returns was less than the number of actual
120 employees reported on the Revised Schedule C-11.2a, the fact remains that an
121 attempt to verify the Company's actual employee numbers indicated that the
122 actual number of employees may be less than included in the Company's filing.
123 Thus, this information further supports the historical trend of over budgeting
124 Payroll Expense.

125 Q. What is your recommendation concerning payroll expense for the test year?

126 A. I recommend that the Commission approve my adjustment shown on Schedule
127 2.1 reducing payroll expense and increasing capitalized payroll, based on the
128 Company's consistent budget variances in both positions and dollars for payroll.

129 Payroll Tax Expense

130 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.2, Adjustment to Payroll Tax Expense
131 FICA based on my adjustment to payroll.

132 A. Schedule 2.2 reflects my proposed adjustment recalculating payroll tax expense
133 for FICA Tax. The FICA Tax calculation is based on Total Payroll per Staff. That
134 amount is multiplied by the statutory FICA rate of 7.65%.

135 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.3, Adjustment to Payroll Tax Expense
136 SUTA.

137 A. Schedule 2.3 reflects my proposed adjustment recalculating payroll tax expense
138 for State Unemployment Tax ("SUTA") based on my adjustment to payroll.
139 Payroll Tax Expense SUTA is based on the first \$9,800 paid to each employee. I
140 took a conservative measure of the number of employees who would earn at
141 least \$9,800 in the test year by including the budgeted full time and part time
142 employees and omitting the summer workers. While the summer workers would
143 earn some taxable amount, it would likely be less than \$9,800. In addition, the
144 part time employees may not earn the full \$9,800. The total taxable wages as
145 calculated is then multiplied by Aqua's 2004 tax rate of 1.04%.

146 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.4, Adjustment to Payroll Tax Expense
147 FUTA.

148 A. Schedule 2.4 reflects my proposed adjustment recalculating payroll tax expense
149 for Federal Unemployment Tax ("FUTA") based on my adjustment to payroll.
150 The FUTA wage limit is \$7,000 and the current tax rate is 0.8% (after the credit
151 for state unemployment tax is applied). For consistency, I used the same
152 number of employees to calculate the Adjustment to Payroll Tax Expense FUTA
153 as I used for the SUTA calculation.

154 Q. How did you calculate the capitalized payroll tax adjustment?

155 A. I derived the capitalized labor percentage by comparing total payroll to
156 capitalized payroll per Staff to arrive at 26.56%. I applied that percentage to the
157 adjustment to payroll tax expense to derive the amount of adjustment to Account
158 675 Miscellaneous General Expenses and to Plant in Service to reflect the
159 adjustment for payroll tax to be capitalized, consistent with the Company's entry
160 for capitalized benefits.

161 Q. How were the Company's test year amounts for the FICA, SUTA, and FUTA
162 taxes derived?

163 A. Staff data request TEE 7.01 requested workpapers supporting the amounts
164 included on Company Schedule C-18, page 2. As of this date, those supporting
165 workpapers have not been provided. However, based on Staff's calculations on
166 Schedules 2.2, 2.3, and 2.4, Staff's proposed adjustments should be approved.

167 Incentive Compensation Expense

168 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.5, Adjustment to Incentive
169 Compensation Expense.

170 A. Schedule 2.5 reflects my proposed adjustment to disallow salaries expense as
171 well as the allocation for Aqua's corporate employees related to incentive
172 compensation plans.

173 Q. Please explain why you propose disallowing the amounts associated with
174 incentive compensation.

175 A. I am disallowing the costs associated with Aqua’s incentive compensation plan
176 (the “plan”) because:

- 177 1) The plan is dependent upon financial goals of the Company which
178 benefit shareholders and not ratepayers;
- 179 2) The goals in the plan may not be met and thus no cost would be
180 incurred by the Company yet ratepayers would have provided funding;
- 181 3) The plan is discretionary and may be discontinued at any time;
- 182 4) There is not sufficient comparable historical data on which to
183 determine if the test year level is reflective of a “normal” level; and
- 184 5) The disallowance of incentive compensation is consistent with prior
185 Commission Orders.

186 **The plan is dependent upon financial goals which benefit shareholders and**
187 **not ratepayers**

188 Q. Discuss how the plan is dependent on financial goals which benefit shareholders
189 and not ratepayers.

190 A. The plan descriptions for all Incentive Compensation programs as provided by
191 the Company indicate that the ***BEGIN CONF XXXXXXXXXXXXXXXXXXXXXXXXXXXX

214 incurs it. The Commission has been concerned about this issue repeatedly in
215 the past:

216 [T]he Commission is concerned that ratepayers are not protected if
217 IP fails to achieve the financial goals and incentive compensation
218 payments are not made. Under that scenario, ratepayers would still
219 pay for the incentive compensation plan if IP's position were
220 adopted. Illinois Power Company, ICC Docket Nos. 99-0120/99-
221 0134 Consol., p. 44 (Order entered August 25, 1999).

222 Furthermore, the Commission is not persuaded that ratepayers are
223 protected in the event that the targeted return on capital investment
224 is not achieved. Under CILCO's proposal, ratepayers would still
225 fund the test year level of incentive payments even if that level is
226 not achieved. While failure to achieve the efficiencies that would
227 result in the projected level of incentive payments may penalize
228 individual managers, ratepayers receive no benefit from this
229 "penalty." Shareholders, on the other hand, would benefit. Central
230 Illinois Light Company, ICC Docket Nos. 99-0119/99-0131 Consol.,
231 p. 38 (Order entered August 25, 1999).

232 Q. Has Aqua met its budgeted incentive compensation in prior years?

233 A. No. In response to Staff data request TEE 2.01, the Company illustrated that it
234 met its budgeted incentive compensation in only one year. In the two most
235 recent years of data provided, the Company's incentive compensation was only
236 75% or less of the budgeted amount. If the amounts of budgeted expense were
237 included in rates for those years, the other 25% would go directly to the
238 shareholders, with no benefit to ratepayers.

239 Q. Has the Commission accepted similar adjustments for incentive compensation in
240 prior Orders?

241 A. Yes. In Docket No. 93-0183 concerning Illinois Power Company, the
242 Commission concluded since financial goals benefit shareholders, ratepayers
243 should not have to bear the cost:

244 Two of the goals, earnings per share and reduced O & M expenses
245 are goals that benefit shareholders. If the shareholders are the
246 ones to benefit, they should be the ones who foot the bill. Illinois
247 Power Company, ICC Docket No. 93-0183, p. 52 (Order entered
248 April 6, 1994).

249 And in Docket No. 99-0534 concerning MidAmerican Energy Company, the
250 Commission reached a similar conclusion regarding ratepayer benefit from
251 incentive compensation based on financial goals:

252 The commission is not convinced that the ratepayers are protected in the
253 event that the targeted return on capital investment is not achieved.
254 Ratepayers would still fund the projected levels of incentive compensation
255 even if that level is not achieved. MidAmerican Energy Company, ICC
256 Docket No. 99-0534, p.9 (Order entered July 11, 2000).

257 **The plan is discretionary and may be discontinued at any time**

258 Q. Has the Company made any commitments to its continuance of the plan?

259 A. No. In fact, the plan description for 2004 states:

260 *** BEGIN CONF [REDACTED]
261 [REDACTED]
262 [REDACTED]
263 [REDACTED]

264 [REDACTED]

265 [REDACTED] END

266 CONF*** In fact, the plan was discontinued for Union employees of the
267 Vermilion Division as of June 1, 2002.

268 Q. Is there any other feature of the plans which illustrates their uncertainty?

269 A. Yes. *** BEGIN CONF x
270 x
271 x
272 x
273 x END CONF ***

274 **There is no comparable historical data on which to determine if the test**
275 **year level is reflective of a “normal” level**

276 Q. Discuss the lack of data for determining a “normal” level of expense for incentive
277 compensation.

278 A. In its response to Staff data request TEE 5.06, the Company indicated that its
279 incentive compensation plan has undergone significant changes from 2000 to
280 2003 (Attachment B). Not only has the population eligible for the incentive
281 compensation payout changed but the mechanism used to derive the amount of
282 the payout for the majority of the eligible employees has also changed.
283 Therefore, since the structure for the payout historically is different from the test
284 year, there is insufficient data to analyze, based upon historical data, what the
285 payout would be in the future.

286 **The disallowance of the cost of incentive compensation programs is**
287 **consistent with prior Commission Orders.**

288 Q. Is the disallowance of the cost of incentive compensation programs consistent
289 with prior Commission Orders?

290 A. Yes. The Commission rejected the costs for incentive compensation plans in the
291 following cases:

- 292 • AmerenCIPS and AmerenUE: Docket No. 00-0802;
- 293 • MidAmerican Energy Company: Docket No. 99-0534;
- 294 • Illinois Power Company: Docket Nos. 99-0120/99-0134
295 (Consolidated), 93-0183, and 91-0147;
- 296 • Central Illinois Light Company: Docket Nos. 99-0119/99-0131
297 (Consolidated), and 94-0040;
- 298 • Consumers Illinois Water Company: Docket Nos. 95-0641, 95-
299 0307/95-0342 (Consolidated); and
- 300 • Citizens Utilities Company of Illinois, Docket No. 94-0481.

301 Workers Compensation Insurance Expense

302 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.6, Adjustment to Workers
303 Compensation Insurance Expense.

304 A. Schedule 2.6 presents my adjustment to Workers Compensation Insurance
305 Expense to reflect a more reasonable estimate of Workers Compensation
306 Insurance Expense than that proposed by the Company.

307 Q. How did you calculate your proposed adjustment to Workers Compensation
308 Insurance Expense for the test year?

309 A. I applied the Rate per \$100 of Payroll shown in the Company's response to Staff
310 data request TEE 4.01 (VER 024279) to the actual test year payroll I propose on
311 ICC Staff Exhibit 2.2. I added to that the amount of Terrorism and Stop Gap
312 coverages included in the Company's response to Staff data request TEE 4.01
313 (VER 024279) which is allocated based on the percentages provided by the
314 Company in response to Staff data request TEE 3.12. The result is \$9,830
315 compared to the \$30,948 proposed by the Company.

316 Q. Did you perform any further analysis to determine the reasonableness of your
317 calculation?

318 A. Yes. I applied the percentages provided by the Company in response to Staff
319 data request TEE 3.12 to the Total Estimated Premium for 10/1/2003 –
320 10/1/2004 of \$490,283 (Company's response to Staff data request TEE 4.01
321 (VER 024279)). This calculation resulted in \$13,130 in premium allocated to the
322 Vermilion Division. My estimate for Workers Compensation Insurance Expense
323 based on test year payroll for the Vermilion Division is more in line with the

324 allocations proposed by the Company than the amount included by the Company
325 in test year insurance expense.

326 Q. Why did you use the information in the Company's response to Staff data request
327 TEE 4.01 (VER 024279) to calculate your estimate for Workers Compensation
328 Insurance Expense?

329 A. The information in the Company's response to Staff data request TEE 4.01 (VER
330 024279) is for the policy period ending 10/1/2004 and is the most current
331 information available. The Company should have any updates to that information
332 for its policy renewal on October 1, 2004. I would consider that updated
333 information in my adjustment.

334 Advertising Expense

335 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.7, Adjustment to Advertising Expense.

336 A. Exhibit 2.7 presents my adjustments to advertising expense to disallow expenses
337 that are promotional or goodwill in nature or are unsupported.

338 Q. How did you determine that items were promotional or goodwill in nature?

339 A. In response to Staff data request TEE 1.14, the Company provided a detail of its
340 Schedule C-8, Demonstration and Selling, Advertising, and Miscellaneous Sales
341 Expense. During fieldwork, I reviewed invoices provided by the Company in
342 support of its historic advertising expense. Several of the items listed on the

343 response to Staff data request TEE 1.14 are identical to those historic expenses:
344 The Independent News, Danville Area Economic, Athletic World Advertising, and
345 Red Mask Players. These items were for subscriptions or advertisements in
346 programs, which primarily promote the image or name of the Company.

347 Q. How did you determine the amount of radio advertising to be allowed in the
348 revenue requirement?

349 A. I reviewed transcripts for the radio spots on WDNL Radio, WDAN Radio, and
350 Vermilion Broadcast Company. I determined that only 50% of those transcripts
351 fall within the definition of advertising allowed to be recovered in rates and have
352 included only that amount in my proposed advertising expense.

353 Q. What is your understanding of Section 9-225 of the Illinois Public Utilities Act
354 ("Act")?

355 A. My understanding of Section 9-225 of the Act is that goodwill advertising, which
356 is advertising designed primarily to promote the image or name of the Company
357 or promote controversial industry issues, should not be considered for the
358 purpose of determining rates. Although Section 9-225(3) specifically states that
359 it is for electric and gas utilities, it is equally important that water utilities do not
360 recover rates for goodwill advertising. It is not appropriate for captive customers
361 to pay for advertising the purpose of which is not to inform the customer, but
362 rather to promote the Company. Captive customers should not pay rates that

363 include amounts for promoting a product that they have little choice but to
364 purchase.

365 Q. Has the Commission ever accepted an adjustment disallowing goodwill
366 advertising expenses from a water utility company's rates?

367 A. Yes. In prior Consumers Illinois Water Company ("CIWC") rate cases the
368 Commission accepted adjustments to disallow goodwill advertising expenses.
369 (Order in Docket No. 03-0403, p. 20 and Docket Nos. 00-0337/00-0338/00-0339
370 Consolidated, p. 6).

371 Q. How did you determine the amount for Commercial Newspaper to be allowed in
372 the revenue requirement?

373 A. In reviewing historic costs associated with Commercial Newspaper, I noted that
374 the costs for the test year as detailed in the response to Staff data request TEE
375 1.14 was more than double prior years. No explanation was provided for that
376 increase other than some portion was included for the name change from
377 Consumers Illinois Water Company to Aqua Illinois, Inc. Since that would not be
378 a recurring event, advertising costs associated with the name change should not
379 be included in the 2005 test year. Any other costs associated with that increase
380 were neither supported nor explained; thus, they are not included in my proposal
381 for advertising expense.

382 I also reviewed historic invoices from Commercial Newspaper and found that
383 about half of the historic expenses were for promotional purposes. The amount
384 included in Advertising Expense per Staff are only those historic costs for
385 Commercial Newspaper which are not goodwill or promotional.

386 Q. What is your recommendation regarding Advertising Expense?

387 A. I recommend that my adjustment be accepted by the Commission allowing only
388 those costs which have been supported and are not promotional or goodwill in
389 nature.

390 Charitable Contributions

391 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.8, Adjustment to Charitable
392 Contributions.

393 A. Schedule 2.8, Adjustment for Charitable Contributions, presents my proposed
394 adjustment to remove items from the Company's operating expenses because
395 the contributions are:

- 396 1. Payments for Economic Council dues;
- 397 2. Payments that are promotional, goodwill or institutional in nature;
- 398 3. Payments made to non-charitable organizations.

399 Q. Provide the rationale why payments for Economic Council dues recorded as
400 donations should be disallowed.

401 A. The largest cost included in my adjustment is for annual dues to the Danville
402 Area Economic Council. Participation in such groups is a promotional and
403 goodwill practice, which, while perhaps promoting good corporate citizenship and
404 enabling employees to keep in contact with other members of the business
405 community, is not necessary in providing utility service. Consequently, the
406 ratepayers should not be burdened with the expense of the Company taking part
407 in these community organizations. Therefore, these expenses should be
408 removed from the Company's recoverable administrative and general expenses.

409 Q. Has the Commission previously excluded community organizations related costs
410 from Operations and Maintenance Expenses?

411 A. Yes. The Commission, in Docket No. 90-0169, a Commonwealth Edison
412 Company electric rate case, and Docket No. 90-0128, a Contel of Illinois, Inc.
413 general rate case, ruled that the shareholders, rather than the ratepayers, should
414 bear the cost of interfacing with community organizations. The Commission, in
415 its Order in Commonwealth Edison Company's electric rate case, Docket No. 94-
416 0065, affirmed this position in its ruling to remove the cost of such organizations.
417 And, in Aqua's most recent rate proceeding, Docket No. 03-0403, the
418 Commission adopted this same position.

419 Q. Provide the rationale why payments that are promotional, goodwill or institutional
420 in nature should be disallowed.

421 A. Costs that are of a promotional, goodwill, or institutional in nature put the
422 Company's name before the public and draw attention to the Company in
423 general. Among those costs included in my adjustment are a Fourth of July
424 celebration sponsorship, sporting event sponsorships, music event sponsorships,
425 pancake dinner sponsorship and a local lake stocking.

426 Section 9-225 of the Act expressly states that advertising costs of a goodwill or
427 institutional nature shall not be considered for the purpose of determining rates:

428 In any general rate increase requested by a gas or electric utility company
429 under the provisions of this Act, the Commission shall not consider, for the
430 purpose of determining any rate, charge or classification of costs, any
431 direct or indirect expenditures for promotional, political, institutional or
432 goodwill advertising, unless the Commission finds the advertising to be in
433 the best interest of the Consumer or authorized as provided pursuant to
434 subsection 3 of this Section.

435 Section 9-225 of the Act defines goodwill or institutional advertising as:

436 any advertising either on a local or national basis designed primarily to
437 bring the utility's name before the general public in such a way as to
438 improve the image of the utility or to promote controversial issues for the
439 utility or the industry.

440 Therefore, this type of advertising should be removed from the Company's test
441 year operating expenses.

442 Q. How did you determine the costs were of a goodwill nature?

443 A. I reviewed the listing provided in response to Staff data request TEE 2.07 as well
444 as supporting invoices for prior period expenses and determined that the costs
445 identified were primarily for the purpose of improving the image of the Company.

446 Q. Has the Commission previously excluded goodwill advertising from Operating
447 Expenses?

448 A. Yes, in Central Illinois Light Company's ("CILCO") delivery services tariffs case,
449 Docket Nos. 99-0119/99-0131 (Consolidated), Staff deducted goodwill
450 advertisements from allowable expenses. CILCO did not oppose this
451 adjustment, and the Commission found it to be reasonable. In Ameren Docket
452 No. 99-0121, Staff deducted goodwill advertisements from allowable expenses.
453 Ameren did not oppose this adjustment, and the Commission found it to be
454 reasonable. In Aqua's most recent rate proceeding, the Commission adopted
455 Staff's similar adjustment.

456 Q. Describe the amounts paid to non-charitable payees.

457 A. The amounts included as Charitable Contributions include amounts paid for three
458 participants to attend Boys State and for two college scholarships. While these
459 are certainly worthwhile community minded donations, they cannot be defined as
460 Charitable Contributions. These types of costs would more correctly be defined
461 as goodwill and promotional in nature and therefore not recoverable in rates.

462 Materials and Supplies

463 Q. Please describe ICC Staff Exhibit 2.0, Schedule 2.9, Adjustment to Materials and
464 Supplies.

465 A. Schedule 2.9 presents my adjustments to reduce the Company's test year
466 materials and supplies inventory balance for the amount of average materials
467 and supplies included in accounts payable.

468 A 13-month average is consistent with the Company's filing and is the
469 appropriate method to use when the balances are volatile. In response to Staff
470 data request TEE 1.09, the Company provided \$28,956 as the amount of
471 materials and supplies included in accounts payable.

472 Accounts payable are an integral component of a utility's materials and supplies
473 inventory. An account payable represents "vendor financing" of purchased
474 merchandise until it has been paid in full. Since the vendor is financing these
475 purchases until paid, the investors have no investment in the related materials
476 and supplies. The materials and supplies inventory included in rate base should
477 be reduced by the amount of accounts payable related to the inventory because
478 the company should not earn a return on inventory until it has been funded by the
479 investors.

480 The Commission agrees with the reasoning presented by these adjustments and
481 has accepted such adjustments in the past as evidenced by Commission Orders

482 in the following: Docket No. 95-0031, p. 4; Docket No. 95-0032, pp. 5 - 6; Docket
483 No. 95-0219, pp. 10 - 11; Docket No. 95-0641, pp. 10, 12 & App. A, Sch. 2, Col.
484 C; Docket Nos. 99-0119/99-0131 (Consolidated), p. 15; Docket No. 99-0121, p.
485 30; and Docket No. 99-0120, p. 25. In Aqua's most recent rate proceeding,
486 Docket 03-0403, the Company accepted Staff's reduction of rate base for the
487 amount of materials and supplies accounts payable.

488 Membership Dues

489 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.10, Adjustment to Other Expenses -
490 Membership Dues.

491 A. Schedule 2.10, Adjustment to Other Expenses - Membership Dues, reflects my
492 proposed adjustment to remove certain community organization dues from the
493 Company's recoverable miscellaneous general expenses. Participation in such
494 groups is a promotional and goodwill practice, which, while perhaps promoting
495 good corporate citizenship and enabling employees to keep in contact with other
496 members of the business community, is not necessary in providing utility service.
497 Consequently, the ratepayers should not be burdened with the expense of the
498 Company taking part in these community organizations. Therefore, these
499 expenses should be removed from the Company's recoverable miscellaneous
500 general expenses. In Aqua's most recent rate proceeding, Docket No. 03-0403,
501 the Company accepted Staff's adjustment to remove dues paid to local
502 community organizations.

503 Lobbying Fees

504 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.11, Adjustment to Other Expenses -
505 Lobbying Fees.

506 A. Schedule 2.11 presents my adjustment to remove the portion of membership
507 dues related to lobbying efforts.

508 Q. Please explain why you propose to remove the portion of membership dues
509 related to lobbying efforts.

510 A. Section 9-224 of the Act states that,

511 The Commission shall not consider as an expense of any public
512 utility company, for the purpose of determining any rate or charge,
513 any amount expended for political activity or lobbying as defined in
514 the "Lobbyist Registration Act".

515 In responding to Staff data request TEE 4.18, the Company provided the latest
516 invoice for dues for its membership in the National Association of Water
517 Companies. This invoice stated that 18% of the dues was for lobbying activities.
518 Schedule 2.9 presents my adjustment to disallow that portion of Industry
519 Association dues paid in connection with non-recoverable lobbying fees. In
520 Aqua's most recent rate proceeding Docket No. 03-0403, the Company accepted
521 Staff's adjustment to remove the portion of dues related to lobbying efforts.

522 Collections Expense

523 Q. Describe ICC Staff Exhibit 2.0, Schedule 2.12, Adjustment for Collections
524 Expense.

525 A. Schedule 2.12 presents my adjustments to remove an expense described as
526 "Collections" from miscellaneous general expenses, which would already be
527 provided for in Management Fees, and to reduce Contractual Services for the
528 costs related to performing those same duties in prior years.

529 Q. Why are you proposing that "Collections" be removed from Miscellaneous
530 General Expenses?

531 A. Expenses described as "Collections" are the same type of costs that would be
532 included in Management Fees. The Company confirms this fact in its response
533 to Staff data request TEE 7.06 wherein it states:

534 The Illinois Commerce Commission has not yet approved an
535 Affiliated Interest Agreement between Aqua Illinois and Aqua
536 Resources. The Company intends to file a Petition for the
537 Commission's approval of such an agreement prior to the
538 conclusion of 2004.

539 Costs for Management fees are projected to increase \$223,521 (\$1,153,161 in
540 2003 to \$1,376,682 in 2005 (Company Schedule C-13)). This increase over a
541 two-year period would seem to be sufficient to cover the costs of collections as
542 described by the Company.

543 Q. How have the duties described as collections been performed in the past?

544 A. Two part-time Remittance Center clerks at the Company's Danville office
545 performed the duties described as collections (Company response to Staff data
546 request TEE 6.03). While the Company has increased expenses for Aqua
547 Resources performing these duties, no offsetting adjustment was made by the
548 Company to decrease expenses related to these Remittance Center clerks.

549 Q. Explain the derivation of your adjustment to Contractual Services.

550 A. In response to Staff data request TEE 6.04, the Company stated that charges for
551 2003 related to the part-time clerks performing the collection duties was \$35,880,
552 which was charged to Account 6367. I escalated the Collections Expense per
553 the Company by 3.5% salary increase factors for two years as indicated in the
554 Projected Financial Information included as Schedule G-2 of the Company's
555 filing.

556 Q. What is your recommendation regarding "Collections" Expense?

557 A. I recommend that my two-part adjustment be approved. Part one of the
558 adjustment disallows the increase in Miscellaneous General Expenses since an
559 increase has already been reflected in Management Fees which would cover the
560 costs of the affiliate, Aqua Resources, providing the collections services. Part
561 two of the adjustment decreases Contractual Services for the two part-time
562 remittance clerks who had previously performed those collections services.

563 Conclusion

564 Q. Does this question end your prepared direct testimony?

565 A. Yes.

Comparison of Actual versus Budgeted Payroll
 Aqua Illinois - Vermilion Water Division
 Calendar Years 2002 and 2003

2002		Budgeted Employees C-11.2b Revised (A)	Actual Employees C-11.2a Revised (B)	Actual Employees IL Unemployment Tax Returns (C)	Source for Tax Return Actual Employees (D)	Difference C-11.2b rev. C-11.2a rev. (E) (B) - (A)	Difference C-11.2a rev. Tax Returns (F) (C) - (B)	Difference C-11.2b rev. Tax Returns (G) (C) - (A)
1	Jan	115	118	117	VER 024477	3	-1	2
2	Feb	115	112	106	VER 024477	-3	-6	-9
3	Mar	115	108	106	VER 024477	-7	-2	-9
4	Apr	118	104	104	VER 024481	-14	0	-14
5	May	121	109	107	VER 024481	-12	-2	-14
6	Jun	121	113	114	VER 024481	-8	1	-7
7	Jul	121	118	119	VER 024485	-3	1	-2
8	Aug	121	119	112	VER 024485	-2	-7	-9
9	Sep	121	111	109	VER 024485	-10	-2	-12
10	Oct	118	112	112	VER 024489	-6	0	-6
11	Nov	115	110	110	VER 024489	-5	0	-5
12	Dec	115	114	112	VER 024489	-1	-2	-3
2003								
13	Jan	119	118	117	VER 024471	-1	-1	-2
14	Feb	119	111	108	VER 024471	-8	-3	-11
15	Mar	119	108	107	VER 024471	-11	-1	-12
16	Apr	128	107	105	VER 024293	-21	-2	-23
17	May	141	110	106	VER 024293	-31	-4	-35
18	Jun	141	118	116	VER 024293	-23	-2	-25
19	Jul	141	127	126	VER 024290	-14	-1	-15
20	Aug	141	129	119	VER 024290	-12	-10	-22
21	Sep	141	110	109	VER 024290	-31	-1	-32
22	Oct	130	108	107	VER 024287	-22	-1	-23
23	Nov	119	108	101	VER 024287	-11	-7	-18
24	Dec	119	108	101	VER 024287	-11	-7	-18

STAFF DATA REQUEST
DOCKET NO. 04-0442

Utility Company: AQUA ILLINOIS, INC.

Date Submitted: September 1, 2004

Submitted By: Jack Schreyer
Manager of Rates
(610) 645-4237

TEE 5.06 Please describe in detail any and all changes to the Consumers Illinois Water Incentive Compensation Plans from 2000 to 2003.

Answer

All exempt and non-exempt employees were eligible for the Consumers Water Company Incentive Compensation Plan in effect in 2000. The Plan in effect during 2000 provided for target award levels based on performance measures and weightings for such employees. As noted in response to TEE 4.12, Union employees are not included under any current incentive compensation or bonus plan. The 2003 Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of the Company based on performance measures via the Management Incentive Program. In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program to reward non-union employees not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves the customers. Awards may also be made under this program for a special action or deed, or for a project that positively impacts the performance or image of the Company.

Aqua Illinois - Vermilion Water Division
 Adjustments to Payroll
 For the Test Year Ended December 31, 2005

Line No.	<u>Description</u> (A)	(B)	<u>Source</u> (C)
1	2001 Payroll Expense Variance	-6.32%	Company Schedule G-10, page 2 of 8
2	2002 Payroll Expense Variance	-13.33%	Company Schedule G-10, page 4 of 8
3	2003 Payroll Expense Variance	-16.90%	Company Schedule G-10, page 6 of 8
4	2004 Payroll Expense Variance	<u>-10.96%</u>	Company response to Staff data request TEE 1.01
5	Average Payroll Expense Variance	-11.88%	Sum of lines 1 thru 4 divided by 4
6	Company Projected Payroll Expense	\$1,114,294	Company Schedule C-11.1
7	Less Incentive Compensation included in expense	<u>21,468</u>	Company response to Staff data request TEE 2.01
8	Net Payroll Expense	<u><u>1,092,826</u></u>	Line 6 minus line 7
9	Staff Proposed Payroll Expense	\$ 963,026	Line 8 times (1+line 5) = 1,092,826 * 88.12%
10	Company Net Payroll Expense	<u>1,092,826</u>	Line 8
11	Proposed adjustment to Payroll Expense	<u><u>\$ (129,800)</u></u>	Line 9 minus line 10

Aqua Illinois - Vermilion Water Division
 Adjustments to Payroll
 For the Test Year Ended December 31, 2005

Line No.	<u>Description</u> (A)	<u>Actual Payroll</u> (B)	<u>Budgeted Payroll</u> (C)	<u>Payroll Variance</u> (D)	<u>% Variance</u> (E)	<u>Amount</u> (F)
1	2001 Capitalized Payroll	182,281	164,684	17,597	9.65%	
2	2002 Capitalized Payroll	296,050	263,519	32,531	10.99%	
3	2003 Capitalized Payroll	378,273	308,640	69,633	18.41%	
4	6/30/04 YTD Capitalized Payroll	186,787	187,174	(387)	-0.21%	
5	Average Variance				9.71%	
6	Capitalized Payroll per Staff					\$ 334,306 (1)
7	Capitalized Payroll per Company					<u>304,716</u> (2)
8	Proposed adjustment to Capitalized Payroll					<u><u>\$ 29,590</u></u> (3)

Sources: Col (B) Company response to Staff data request TEE 5.12
 Col (C) Company response to Staff data request TEE 5.13
 Col (D) Column (B) minus Column (C)
 Col (E) Column (D) divided by Column (B)
 (1) Line 7 plus line 8
 (2) Company Schedule C-11.1, page 2 of 2, line 16
 (3) Line 7 times line 5

Aqua Illinois - Vermilion Water Division
 Adjustment to Payroll Tax Expense FICA
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	Staff Proposed Payroll Expense	\$ 963,026	ICC Staff Exhibit 2.0, Schedule 2.1, page 1, line 9
2	Staff Proposed Capitalized Payroll	334,306	ICC Staff Exhibit 2.0, Schedule 2.1, page 2, line 6
3	Staff Proposed Adjustment for Collections	<u>(38,436)</u>	ICC Staff Exhibit 2.0, Schedule 2.12, line 7
4	Total Payroll per Staff	<u>\$ 1,258,896</u>	Sum of lines 1 through 3
5	FICA Tax rate	<u>7.65%</u>	
6	FICA Tax per Staff	96,306	Line 4 times line 5
7	FICA Tax per Company	<u>109,770</u>	Company Schedule C-18
8	Proposed Adjustment to FICA Tax	<u><u>(13,464)</u></u>	Line 6 minus line 7
9	Capitalized Labor % per Staff	<u>26.56%</u>	Line 2 divided by line 4
10	Proposed adjustment to Plant Additions	<u>\$ (3,576)</u>	Line 8 times line 9
11	Proposed adjustment to Capitalized Benefits	<u><u>\$ 3,576</u></u>	

Aqua Illinois - Vermilion Water Division
 Adjustment to Payroll Tax Expense SUTA
 For the Test Year Ended December 31, 2005

Line No.	<u>Description</u> (A)	(B)	<u>Source</u> (C)
1	Budgeted number of FT and PT employees per Company		36 Company Revised Schedule C-11.2a, page 8 of 8
2	State Unemployment Wage limit	<u>9,800</u>	(1)
3	Taxable Wages	352,800	Line 1 times line 2
4	Tax Rate	<u>1.04%</u>	(1)
5	State Unemployment Tax per Staff	\$ 3,669	Line 3 times line 4
6	State Unemployment Tax per Company	<u>9,014</u>	Company Schedule C-18, page 2 of 2, line 31
7	Proposed Adjustment to SUTA	<u>\$ (5,345)</u>	Line 5 minus line 6
8	Capitalized Labor % per Staff	<u>26.56%</u>	ICC Staff Exhibit 2.0, Schedule 2.3, line 8
9	Proposed adjustment to Plant Additions	<u>\$ (1,419)</u>	Line 7 times line 8
10	Proposed adjustment to Capitalized Benefits	<u>\$ 1,419</u>	

Aqua Illinois - Vermilion Water Division
 Adjustment to Payroll Tax Expense FUTA
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	(B)	<u>Source</u> (C)
1	Budgeted number of FT and PT employees per Company		36 Company Revised Schedule C-11.2a, page 8 of 8
2	Federal Unemployment Wage limit	<u>7,000</u>	(1)
3	Taxable Wages	252,000	Line 1 times line 2
4	Tax Rate	<u>0.80%</u>	(1)
5	Federal Unemployment Tax per Staff	\$ 2,016	Line 3 times line 4
6	Federal Unemployment Tax per Company	<u>2,147</u>	Company Schedule C-18, page 2 of 2, line 31
7	Proposed Adjustment to FUTA	<u>\$ (131)</u>	Line 5 minus line 6
8	Capitalized Labor % per Staff	<u>26.56%</u>	ICC Staff Exhibit 2.0, Schedule 2.3, line 8
9	Proposed adjustment to Plant Additions	<u>\$ (35)</u>	Line 7 times line 8
10	Proposed adjustment to Capitalized Benefits	<u>\$ 35</u>	

Aqua Illinois - Vermilion Water Division
 Adjustment to Incentive Compensation
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	Vermilion Division Incentive Compensation per Staff	\$ -	
2	Vermilion Division Incentive Compensation per Company	<u>21,468</u>	Company response to Staff data request TEE 2.01
3	Proposed adjustment to Incentive Compensation	<u>\$ (21,468)</u>	Line 1 minus line 2
4	Aqua Illinois, Inc. Incentive Compensation per Staff	\$ -	
5	Aqua Illinois, Inc. Incentive Compensation per Company	<u>12,322</u>	Company response to Staff data request TEE 4.10
6	Proposed adjustment to Incentive Compensation	<u>\$ (12,322)</u>	Line 4 minus line 5

Aqua Illinois - Vermilion Water Division
 Adjustment to Workers Compensation Insurance
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	(C)	(D)	<u>Source</u> (E)
1	Total Payroll per Staff		\$1,258,896	ICC Staff Exhibit 2.0, Schedule 2.2, line 3
2	Workers Compensation rate per \$100		<u>0.746</u>	Company response to Staff data request 4.01 (VER 024279)
3	Premium		\$ 9,391	Line 1 times line 2 divided by 100
4	Terrorism Coverage Premium	\$ 9,318		Company response to Staff data request 4.01 (VER 024279)
5	Stop Gap	<u>7,047</u>		Company response to Staff data request 4.01 (VER 024279)
6	Subtotal other Coverage	16,365		Line 4 plus line 5
7	Allocation to Aqua Illinois per Company response TEE 3.12	<u>10.30%</u>		
8	Workers Compensation allocated to Aqua Illinois	\$ 1,686		Line 6 times line 7
9	Allocation to Vermilion Division per Company response TEE 3.12	<u>26.00%</u>	<u>438</u>	Line 8 times line 9
10	Workers Compensation Insurance Expense per Staff		\$ 9,830	Line 3 plus line 9
11	Workers Compensation Insurance Expense per Company		<u>30,948</u>	Company Schedule C-17 page 2, line 37
12	Proposed adjustment to Workers Compensation Insurance Expense		<u>\$ (21,118)</u>	Line 1 minus line 2

Aqua Illinois - Vermilion Water Division
 Adjustment to Advertising Expense
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	WDNL Radio	\$ 5,075	(1)
2	WDAN Radio	3,300	(1)
3	Vermilion Broadcasting	210	(1)
4		<u>\$ 8,585</u>	Sum of lines 1 through 3
5	Percentage of ads allowed	<u>50%</u>	
6	Subtotal		4,293 Line 4 times line 5
7	Commercial Newspaper	<u>1,780</u>	
8	Advertising Expense per Staff	\$ 6,073	Sum of lines 6 and 7
9	Advertising Expense per Company	<u>15,613</u>	Company Schedule C-8
10	Proposed adjustment to Advertising Expense	<u>\$ (9,540)</u>	Line 8 minus line 9

(1) Response to Staff data request TEE 1.14

Aqua Illinois - Vermilion Water Division
 Adjustment to Charitable Contributions
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	Boys State	\$ 225	(1)
2	College Scholarships	2,000	(1)
3	American Legion	1,000	(1)
4	Danville Area Chamber of Commerce	500	(1)
5	Danville Area Community College	1,750	(1)
6	Danville Area Economic Council	10,000	(1)
7	Danville Boat Club	500	(1)
8	Danville Stadium	600	(1)
9	Danville Symphony Orchestra	500	(1)
10	Downtown Danville Inc.	600	(1)
11	Kiwanis Club	1,500	(1)
12	Lake Vermilion Water Quality	5,000	(1)
13	Peer Court, Inc	500	(1)
14	Vermilion County Conservation District	<u>3,000</u>	(1)
15	Total	\$ 27,675	Sum of lines 1 through 14
16	Contributions per Staff	\$ 24,599	Line 17 minus line 15
17	Contributions per Company	<u>52,274</u>	Company Schedule C-7 page 5
18	Proposed adjustment to Contributions	<u>\$ (27,675)</u>	Line 16 minus line 17

(1) Company response to Staff data request TEE 2.07 (VER 024122)

Aqua Illinois - Vermilion Water Division
Adjustment to Materials and Supplies
For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	Materials & Supplies per Company	\$347,471	Company Schedule B-8.1
2	Materials & Supplies in Accounts Payable	<u>28,956</u>	Company response to Staff data request TEE 1.09
3	Materials & Supplies per Staff	\$318,515	Line 1 minus line 2
4	Materials & Supplies per Company	<u>347,471</u>	Company Schedule B-8.1
5	Proposed adjustment to Materials & Supplies	<u>\$ (28,956)</u>	Line 3 minus line 4

Aqua Illinois - Vermilion Water Division
Adjustment to Other Expenses - Membership Dues
For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	Membership Dues per Staff	\$ -	
2	Membership Dues per Company	<u>744</u>	Company response to Staff data request TEE 2.13
3	Proposed adjustment to Membership Dues	<u>\$ (744)</u>	Line 1 minus line 2

Aqua Illinois - Vermilion Water Division
 Adjustment to Other Expenses - Lobbying Fees
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Source</u> (C)
1	2004 NAWC Dues	\$ 4,863	Company response to Staff data request TEE 4.19
2	Lobbying Fees included in NAWC dues	<u>18%</u>	NAWC Invoice received during fieldwork
3	Amount of Lobbying Fees included in Industry Association Dues	<u>\$ 875</u>	Line 1 times line 2
4	Industry Association Dues per Staff	\$ 7,645	Line 5 minus line 3
5	Industry Association Dues per Company	<u>8,520</u>	Company Schedule C-6.1
6	Proposed adjustment to Industry Association Dues	<u>\$ (875)</u>	Line 4 minus line 5

Aqua Illinois - Vermilion Water Division
 Adjustment for Collections Expense
 For the Test Year Ended December 31, 2005

<u>Line No.</u>	<u>Description</u> (A)	<u>Amount</u> (B)	<u>Amount</u> (C)	<u>Source</u> (D)
1	Miscellaneous General Expenses per Staff		\$ 42,792	Line 2 minus line 3
2	Miscellaneous General Expenses per Company		<u>62,038</u>	Company Schedule C-21
3	Proposed adjustment to Miscellaneous General Expenses		<u>\$ (19,246)</u>	Company response to Staff data request TEE 1.22
4	Remittance Center Expense per Staff		\$ -	
5	2003 Remittance Center Expense per Company	\$ 35,880		Company response to Staff data request TEE 6.04
6	2005 Escalated Remittance Center Expense		<u>38,436</u>	Line 5 times 3.5% per year for 2004 and 2005
7	Proposed adjustment to Contractual Services		<u>\$ (38,436)</u>	Line 4 minus line 6