

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AQUA ILLINOIS, INC.)	
f/n/a Consumers Illinois Water Company)	
)	Docket No. 04-0362
)	
Petition for the Issuance of a Certificate of)	
Public Convenience and Necessity to Operate)	
A Water Supply and Distribution System in)	
Champaign County, Illinois; and for the)	
Issuance of an Order Approving Rates,)	
Accounting Entries and Tariff Language.)	

Rebuttal Testimony of

MICHAEL D. BRATETIC

Vice President and Division Manager

On Behalf of
Aqua Illinois, Inc.

January 7, 2005

1 **I. INTRODUCTION**

2 **Q. Please state your name, position and business address.**

3 A. My name is Michael D. Bratetic. I am Vice President of Finance for Aqua Illinois, Inc.
4 My business address is 1000 S. Schuyler Avenue, Kankakee, Illinois 60901.

5 **Q. Have you previously submitted testimony in this proceeding?**

6 A. Yes.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to comment on and rebut certain portions of the
9 journal entries proposed by Staff witness Ms. Mary Everson as well as the entries'
10 impacts on original cost and forecasted revenues. I will also respond to Ms. Everson's
11 proposal for Aqua to file final accounting entries with the Commission within six months
12 of closing the Philo acquisition.

13 **II. STAFF'S PROPOSED JOURNAL ENTRIES**

14 **Q. Would you please describe generally the adjustments Ms. Everson proposes?**

15 A. Yes. Ms. Everson proposes journal entries to accomplish five main adjustments:

- 16 1. Record the purchase initially to Account 104, Water Utility Plant Purchased
17 (Staff JE#1);
- 18 2. Remove \$48,045 of expenses referenced as tank painting from Account 330,
19 Distribution Reservoirs & Standpipes (Staff JE #2);
- 20 3. Remove \$491,538 from Utility Plant by recharacterizing the amount as
21 Contributions in Aid of Construction ("CIAC") (Staff JE #2);
- 22 4. Recalculate the Acquisition Adjustment based on Staff's proposed
23 adjustments set forth in points 2 and 3 herein (Staff JE #2 and 3); and
- 24 5. Remove \$38,443.98 from Account 330, Distribution Reservoirs and
25 Standpipes and make an offsetting entry to account 108, Accumulated
26 Depreciation, to recognize the retirement of the West Water Tank (JE #4).

27 As noted, Staff accomplishes these five adjustments through Staff's journal entries #1
28 through #4. Staff also presents a summary of these journal entries as journal entry #5.

29 **Q. Do you agree with any of Staff's journal entries?**

30 A. Yes. I agree with Staff's first adjustment (JE #1) to record the purchase initially to
31 Account 104, Water Utility Plant Purchased and Staff's fifth adjustment (JE #4) to
32 recognize the retirement of the West Water Tank. I disagree with the remainder of
33 Staff's adjustments and, therefore, the remainder of Staff's journal entries.

34 **Q. Please discuss Staff's second adjustment, recorded in Staff JE #2, of \$48,054 to**
35 **Account 330 Distribution Reservoirs & Standpipes and related adjustment of**
36 **\$13,560 to Account 108 Accumulated Depreciation - Distribution Reservoirs &**
37 **Standpipes.**

38 A. As explained in the Rebuttal Testimony of Mr. Gerard P. Connolly, even though the
39 Village of Philo listed three expenses totaling \$48,054 as "tank painting projects," it is
40 more likely the expenses were for tank improvements and repairs that are allowed at
41 original cost. Therefore, Staff's adjustment of \$13,560 for Account 108 Accumulated
42 Depreciation - Distribution Reservoirs & Standpipes (ICC Staff Exhibit 2.0, Schedule
43 2.2, Page 2) and Staff's adjustment of \$48,054 for Account 330 Distribution Reservoirs
44 & Standpipes (ICC Staff Exhibit 2.0, Schedule 2.2, Page 1) should not be made.

45 **Q. Why do you disagree with Staff's third adjustment, recorded in Staff JE #2, to re-**
46 **characterize \$491,538 of plant as CIAC and the related adjustment of \$115,530 as**
47 **Accumulated Amortization of CIAC?**

48 A. Aqua witness Mr. David R. Monie explains in his Rebuttal Testimony that he did not
49 include any plant constructed from CIAC funding in the Original Cost Study he

50 performed. Therefore, Staff's adjustment of \$491,538 for CIAC (ICC Staff Exhibit 2.0,
51 Schedule 2.3, Page 1) and related adjustment of \$115,530 for Accumulated Amortization
52 of CIAC (ICC Staff Exhibit 2.0, Schedule 2.3, Page 2) should not be made.

53 **Q. Please discuss Staff's fourth adjustment, recorded in Staff JE # 2 and 3, of \$68,085**
54 **to Account 114 Utility Plant Acquisition Adjustment.**

55 A. Staff recalculates the Acquisition Adjustment solely to recognize Staff's adjustments for
56 expenses referenced as tank painting and CIAC. Because the adjustments for the
57 expenses referenced as tank painting and CIAC should not be made, the \$68,085 to
58 Account 114 Utility Plant Acquisition Adjustment (ICC Staff Exhibit 2.0, Schedule 2.4,
59 Page 1) should not be made either.

60 **Q. Is Staff's summary journal entry (Staff JE #5) correct?**

61 A. No. Staff's summary journal entry is erroneous because the detailed entries discussed
62 above (JE #2 and #3) that form the basis for the summary are not correct.

63 **Q. Are you submitting a revised Company Journal Entry with your Rebuttal**
64 **Testimony?**

65 A. Yes. I have attached hereto as Attachment R-2.1 a summary journal entry, in Staff's
66 format, that reflects all the above proposals. In particular, my summary journal entry
67 attached hereto reflects acceptance of Staff's first and fifth adjustments and the rejection
68 of Staff's second, third and fourth adjustments.

69 **III. ORIGINAL COST**

70 **Q. Please describe Staff's adjustment to Original Cost.**

71 A. Staff proposes to reduce Aqua's Original Cost determination by the \$48,054 in expenses
72 referenced as tank painting. (Staff Ex. 2.0, p. 3, Sch. 2.5 (citing Sch. 2.2, p. 1 as source)).

73 **Q. Should the Commission make this adjustment?**

74 A. No. As noted above, Aqua witness Mr. Connolly explains in his Rebuttal Testimony that
75 Staff's adjustment of the expenses referenced as tank painting should not be made. As a
76 result, Staff's adjustment to Original Cost should not be made either.

77 **Q. Do any of Staff's other adjustments impact Original Cost improperly?**

78 A. Yes. As noted above as well as in the Rebuttal Testimonies of Mr. Connolly and Mr.
79 Monie, Staff incorrectly seeks to re-characterize a substantial amount of plant in Aqua's
80 Original Cost Study as CIAC. Because rate base is determined from Net Original Cost
81 (equal to total Original Cost less Depreciation less CIAC), Staff's erroneous adjustment
82 would impact incorrectly Net Original Cost and, thus, rate base, as discussed below. It is
83 especially important that the Commission not make this erroneous adjustment given its
84 substantial size of \$491,538.

85 **IV. FORECASTED REVENUES**

86 **Q. Please describe Staff's forecasted revenue analysis.**

87 A. Aqua witness Mr. Connolly prepared a forecasted revenue analysis set forth as Second
88 Revised GPC Exhibit 1 to his Direct Testimony. Staff witness Ms. Everson prepared
89 alternative forecasted revenue requirement schedules. Staff witness Mr. Luth assesses
90 the reasonableness of including Philo in the Vermilion Division's rates under both
91 Aqua's and Staff's analyses.

92 **Q. Should Staff's analysis be utilized for purposes of making such a determination?**

93 A. No, because Staff's analysis is not correct.

94 **Q. Please explain.**

95 A. Staff makes adjustments to the rate base aspect of the revenue requirement that cause
96 Staff's analysis to be erroneous. In particular, Staff adjusts rate base for CIAC (and
97 related amortization) and the expenses referenced as tank painting. (Staff Ex. 2.0, p. 11).
98 As explained above as well as in the Rebuttal Testimonies of Aqua witnesses Mr.
99 Connolly and Mr. Monie, Staff's adjustments for both of these items are erroneous. Ms.
100 Everson's incorporation of these adjustments to rate base cause her revenue forecast
101 analysis to be erroneous for the same reasons.

102 **Q. What is your recommendation?**

103 A. The Commission should utilize Aqua's revenue forecast analysis, which does not
104 incorporate Staff's erroneous adjustments, to assess the reasonableness of including Philo
105 in Aqua's Vermilion Division.

106 V. FINAL JOURNAL ENTRIES

107 **Q. Ms. Everson recommends the Company file final journal entries within six months**
108 **of the date the acquisition is closed. Would you please respond?**

109 A. Aqua agrees to make this filing.

110 **Q. Ms. Everson also states Aqua should record the annual amortization of the**
111 **acquisition adjustment in Account 426, Miscellaneous Non-Utility Expense for a**
112 **period of 10 years. Does Aqua agree to do so?**

113 A. Yes.

114

VI. CONCLUSION

115 **Q. Does this conclude your Rebuttal Testimony?**

116 **A. Yes, it does.**