

REBUTTAL TESTIMONY

of

MARY H. EVERSON

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Aqua Illinois, Inc.
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

Docket No. 04-0362

March 30, 2005

1 **Witness Identification**

2 Q. Please state your name and business address.

3 A. My name is Mary H. Everson. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 Q. Are you the same Mary H. Everson that provided direct testimony in this
6 proceeding?

7 A. Yes.

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

9 A. The purpose of my testimony is to present my position regarding the Rebuttal
10 Testimonies of Michael D. Bratetic, (Aqua Illinois Ex. R-2.0 Second Revised)
11 David R. Monie, (Aqua Illinois Ex. R-3.0 Revised) and Gerard P. Connolly (Aqua
12 Illinois Ex. R-1.0 Second Revised) regarding Aqua Illinois, Inc.'s ("Aqua" or
13 "Company") position on the issues of tank painting and Contributions in Aid of
14 Construction ("CIAC") and to present revised journal entries to record the
15 transaction.

16

17 **Schedules**

18 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 5.0?

19 A. Yes. I prepared the following schedules:

20 Schedule 5.1 Staff Recommended Journal Entries

21 Schedule 5.2 Adjustment to Distribution Reservoirs & Standpipes

22 Schedule 5.3 Adjustment to Contributions in Aid of Construction

23	Schedule 5.4	Adjustment to Acquisition Adjustment
24	Schedule 5.5	Calculation of Original Cost
25	Schedule 5.6	Forecasted Statement of Operating Expense with Philo
26		Adjustments
27	Schedule 5.7	Adjustments to Operating Income
28	Schedule 5.8	Forecasted Rate Base with Philo Adjustments
29	Schedule 5.9	Adjustments to Rate Base
30	Schedule 5.10	Interest Synchronization Adjustment
31	Schedule 5.11	Gross Revenue Conversion Factor
32	Schedule 5.12	Adjustment to Cash Working Capital

33 Q. Did the Company agree with any of the journal entries, or recommendations you
34 presented in your direct testimony?

35 A. Yes, in part. In the revised rebuttal testimony of Michael D. Bratetic, (Aqua Illinois
36 Ex. R-2.0 Second Revised, pp. 3 and 7) the Company accepts my:

37 1) Journal entry to record the initial purchase to account 104 (JE #1, ICC
38 Staff Ex. 2.0, Schedule 2.1, page 1 of 2);

39 2) Journal entry to retire the West water tank, (JE #4, ICC Staff Ex. 2.0,
40 Schedule 2.1, page 2 of 2); and,

41 3) Recommendation to file journal entries within six months of the closing
42 of the Village of Philo (“Village” or “Philo”) acquisition; (ICC Staff Ex. 2.0,
43 pp. 14-15, lines 317-328).

44 **Original Cost Determination**

45 Q. Is the Company contesting your recommended Original Cost of the Philo water
46 system?

47 A. Yes, in my direct testimony I recommended that the Illinois Commerce
48 Commission (“Commission”) approve \$1,009,594 as the original cost of the Philo
49 water system. (ICC Staff Exhibit 2.0, page 3, line 57) Company witnesses
50 Michael D. Bratetic and Gerard P. Connolly disagree with the adjustments for
51 tank painting. Company witnesses Michael D. Bratetic, Gerard P. Connolly and
52 David R. Monie disagree with my adjustment to recognize Contributions in Aid of
53 Construction.

54 Q. Have you changed the amount you believe the Commission should approve as
55 the original cost of the Village of Philo system?

56 A. Yes. Based on information supplied in response to my data requests, I am now
57 recommending that the Commission approve the amount of \$1,739,073 as the
58 original cost of the Village of Philo system.

59 **Tank Painting**

60 Q. Does the Company contest your adjustment to remove items identified as tank
61 painting in 1977, 1982, and 1989?

62 A. Yes. Both Mr. Bratetic (Aqua Illinois Ex. R-2.0 Second Revised, pp. 3 and 5) and
63 Mr. Connolly (Aqua Illinois Ex. R-1.0 Second Revised, pp. 8 and 10) state that
64 they disagree with the adjustments. However, Mr. Connolly is the only witness
65 who offers any evidence in rebuttal of my position.

66 Q. What are the arguments that Mr. Connolly offers to rebut your adjustment for the
67 three listed tank painting projects?

68 A. In general, he disputes the recording of these projects as tank painting since he
69 now believes the amounts are not large enough to be representative of tank
70 painting projects. (Aqua Illinois Ex. R-1.0 Second Revised, p. 9) However, for two
71 of the projects he offers no substantive proof that the items were for projects
72 other than tank painting.

73 Q. Does Mr. Connolly dispute the basis for your adjustment that the items were for
74 tank painting projects?

75 A. Yes. However, this is in direct contradiction to the Company's original response
76 to Staff data request WD 1.15. (Attachment 1) The data request asked the
77 Company to provide a description of the water storage tank additions that were
78 listed without description on Page 1 of Schedule 1 and Sheet 3 of Schedule 3
79 that are attached to the Direct Testimony of David R. Monie. According to the
80 Company's response, the Village Treasurer's records showed that the Village of
81 Philo had made various plant additions that are identified in the response as tank
82 painting. Subsequent to the Company's filing of rebuttal testimony, Mr. Connolly
83 provided a revised data request response in which Mr. Connolly now opines that
84 the projects weren't for tank painting, but possibly for maintenance and repair.
85 (See Attachment 2)

86 Q. Does Mr. Connolly offer any evidence to support his contention that the
87 Commission should just disregard the Village Treasurer's records?

88 A. In his second revised rebuttal testimony on page 9, lines 168-170 Mr. Connolly
89 offers as proof of his claim that HDC Engineering¹ has records that demonstrate
90 that at least two of the three projects were for purposes other than tank painting.
91 However, in the next question and answer beginning on line 175, page 10 of Mr.
92 Connolly's Second Revised Rebuttal Testimony where he discusses the third item
93 listed as tank painting, he asks the Commission to ignore records, also from HDC
94 Engineering², that indicate that the project was for tank painting. Mr. Connolly
95 appears to be arguing that the Commission should accept only the records that
96 support his supposition that the expenses were for maintenance or
97 improvements and ignore the records that indicate that the expenses were for
98 tank painting as recorded by the Village.

99 Q. Is there another flaw in Mr. Connolly's current contention that the amounts might
100 have been incurred for repairs and maintenance rather than for tank painting and
101 therefore should be included as plant improvements?

102 A. Although Mr. Connolly's contention that the amounts are low for a complete tank
103 painting might have some merit, this theory is in direct contradiction to the entries
104 on the Village records for two of the projects that identify those projects as
105 repainting. Mr. Connolly also suggests that the amounts are not large enough to
106 represent tank painting, but are amounts that "most likely" were for repairs and
107 maintenance. (Aqua Exhibit R-1.0 Revised, p. 10, lines 178-181) Since there are
108 no detailed records that would further prove or disprove that supposition, Mr.

¹ Mr. Connolly's testimony and response to staff data request MHE 5.03 indicate the records belong to HDC Engineering. The records requested and received by Staff were annual Treasurers Reports for the Village of Philo.

² Id.

109 Connolly can theorize endlessly regarding the nature of the expenditures if he
110 ignores the one indication of the purpose of the projects, which is the tank
111 painting description on the Village records.

112 Q. Would you change your recommendation if you accepted Mr. Connolly's theory?

113 A. No. Even if I were to accept Mr. Connolly's revised opinion on the purpose of the
114 tank painting projects, and disregard the Village records, I might then opine that
115 since the amounts for those items represent small repair and maintenance
116 projects, those amounts should have been expensed in the year incurred rather
117 than added to the cost of the tank. Therefore, even if I were to accept Mr.
118 Connolly's current theory that each amount is too small to represent tank painting
119 despite the evidence to the contrary, my adjustment to remove those amounts
120 from the original cost would still remain. Only the purpose for the adjustment
121 would be altered. If I were to accept Mr. Connolly's supposition that the items are
122 too small to be for tank painting, then they probably should have been expensed
123 in the year incurred and would not be properly classified as an improvement and
124 should not then be an addition to rate base.

125 Q. Did you review records from the Village of Philo to determine how the amounts
126 were recorded?

127 A. Yes. In response to Staff data request, MHE 5.03 in which I requested the
128 records from HDC Engineering that Mr. Connolly refers to in his testimony (Aqua
129 Illinois Ex. R-1.0 Second Revised, pp. 9-10), Aqua provided the Village
130 Treasurer's annual reports for the years in which the projects occurred.

131 Q. What conclusion did you draw from your review of the Village records?

132 A. The description of each of the amounts differs slightly for each occurrence. The
133 records for the first year, 1977 lists 3 different entries, the records for 1982 and
134 1989 each list one entry. The descriptions of those entries are as follows:

135 1977 Capital Expenditures

136 Water System Improvements

137 Capital Expenditure for Water System

138 Capital Expenditures Charged Water Fund

139 1982 Capital Improvements

140 Repainting of Water Tank

141 1989 Capital Improvements

142 Water Storage Tank Repainting

143 Q. Did your review of these documents cause you to change your mind about the
144 purpose for any of the projects?

145 A. For the projects occurring in 1977, the Treasurer's report does not specify the
146 nature of the project as tank painting, therefore, I will withdraw my adjustment for
147 the projects occurring in 1977. The description in the Treasurer's reports for the
148 years 1982 and 1989 indicate clearly that the project relates to repainting of the
149 water tank. Therefore, I continue to support my adjustments to remove the
150 amounts related to those projects.

151 Q. Since you are still sponsoring part of your tank painting adjustment, are you still
152 sponsoring the related adjustment to Accumulated Depreciation?

153 A. Yes. I have adjusted the accumulated depreciation for the amounts related to the
154 projects in 1977. The remainder of the accumulated depreciation related to the
155 1982 and 1989 tank painting projects is still included in my journal entries.

156 **Contributions in Aid of Construction**

157 Q. Does the Company disagree with your adjustment to record Contributions in Aid
158 of Construction?

159 A. Yes. Mr. Bratetic, (Aqua Illinois Ex. R-2.0 Second Revised, pp. 3-4) Mr. Connolly
160 (Aqua Illinois Ex. R-1.0 Second Revised, p. 8) and Mr. Monie (Aqua Illinois Ex.
161 R-3.0 Revised, pp. 2-7) all state that they disagree with my adjustment. However,
162 only Mr. Monie offers any type of argument so I will address only his testimony.

163 Q. What is the basis for Mr. Monie's disagreement with your proposed recording of
164 CIAC?

165 A. Mr. Monie claims that the contributed property is not included in his original cost
166 study (Aqua Illinois Ex. R-3.0 Revised, p. 3)

167 Q. Is this a reasonable contention?

168 A. It would be if other evidence provided by the Company supported Mr. Monie's
169 assertion.

170 Q. Please explain.

171 A. Mr. Monie states on page 3, lines 30-31 of his rebuttal testimony that he did not
172 include any contributed property in the original cost study he is sponsoring.
173 However, on that same page at lines 24 and 25 he acknowledges that the
174 Company responded to Staff data request WD 1.07 (Attachments 3 & 4)

175 indicating that the Village had recorded contributions but had not maintained
176 detailed records identifying which items of plant were funded with contributions.

177 Q. Has Aqua identified the assets that were funded with the contributions in Philo's
178 records?

179 A. No. The Company continues to assert that the Village's records do not identify
180 what assets were funded with contributions.

181 Q. How does the Company attempt to reconcile not being able to identify specific
182 assets funded through contributions with Mr. Monie's contention that no
183 contributed property is included in his original cost study?

184 A. In response to Staff data request MHE 5.04, Aqua provided the Affidavit of
185 Robert Rice, Philo's Village Treasurer, in which he states that he did not include
186 any contributed property in the document entitled "Financial Summary of the
187 Village of Philo, Municipal Water Plant" which was submitted in this proceeding
188 as Schedule 2 of Mr. Monie's direct testimony (Aqua Illinois Ex. 3.0 Revised).
189 The Company contends that Schedule 2 was used to develop Mr. Monie's
190 original cost study, now submitted as Schedule 1-2nd Revised of Mr. Monie's
191 Revised Rebuttal Testimony (Aqua Illinois Ex. R-3.0 Revised).

192 Q. Does this information convince you that no assets funded by contributions are
193 included in Mr. Monie's original cost study?

194 A. No. It convinces me that the Village did not keep records in sufficient detail to
195 identify which assets were funded with contributions. Mr. Rice is in the best
196 position to know what assets were funded with contributions and he has no

197 recollection of that specific information. He is willing to swear that no contributed
198 property is included in the document he prepared.

199 Q. Did this document convince you that no assets funded with contributions were
200 included in the original cost study schedule, Schedule 1-2nd Revised (Aqua
201 Illinois Ex. R-3.0 Revised)?

202 A. No. I am unable to reconcile the concept of not being able to identify what assets
203 are funded with contributions with the assertion that none of those unidentified
204 assets are included. If an asset funded by contributions cannot be identified, then
205 it is unknown whether those assets were included in the original cost study of
206 Village assets.

207 Q. Does this information impact your recommendation?

208 A. Yes. Both the information available from the Village and Mr. Monie's contention
209 that he does not know what assets were funded by contributions but that he does
210 know he included none of those assets his original cost study have impacted my
211 recommendation. While I do not believe that records exist to determine which
212 assets were funded with contributions, Aqua and Mr. Monie have acknowledged
213 in response to data requests and in revised rebuttal testimony that contributions
214 were recorded in the Village's records.

215 Q. Does the Uniform System Of Accounts ("USOA") require water utilities to record
216 contributions in aid of construction?

217 A. Yes. Instruction 21 of the USOA states that the amount of contributions in aid of
218 construction applicable to the property acquired should be charged to account

219 104, Utility Plant Purchased or Sold and concurrently credited to account 271,
220 Contributions in Aid of Construction. The Company has acknowledged that the
221 Village of Philo had recorded contributions; therefore, some of those assets
222 included in the purchase of the Philo system were funded by contributions.
223 Therefore, the Company should have included the contributions in the original
224 cost of the Philo system.

225 Q. What is your recommendation?

226 A. Since contributions were recorded but are not specifically identifiable and Aqua
227 admits that contributions were recorded on the Village records, I am amending
228 my recommendation. I am recommending that the amount of contributions
229 recorded on Philo's records be added to the original cost of the plant accounts
230 Aqua is acquiring. This is in addition to the recording of the credit to CIAC and
231 related amortization I sponsored in my direct testimony.

232 Q. What is the rate base effect of this adjustment?

233 A. There is no effect on rate base. The contributions offset the original cost of the
234 assets. However, the contributions will then be properly recorded in accordance
235 with the USOA.

236 Q. Did Mr. Monie correct his original cost amounts for the Philo system related to
237 the asset labeled NIWC Connection?

238 A. Yes. I have incorporated those corrected amounts into my journal entries.

239 **Amortization of Acquisition Adjustment**

240 Q. What is your understanding of the comments made by Aqua witness Bratetic
241 regarding amortization of the acquisition adjustment?

242 A. Mr. Bratetic begins on line 122 of page 7 of his 2nd Revised Rebuttal Testimony
243 (Aqua Illinois Ex. R-2.0 Second Revised) asking about my recommendation
244 regarding the annual amortization of the acquisition adjustment to Miscellaneous
245 Non-Utility Expense. His answer states that amounts recorded to Account 104
246 should be cleared to individual plant accounts such as Account 121, Non-Utility
247 Property. Part of what he states is correct. Plant assets purchased as part of an
248 acquisition should be cleared to individual plant accounts, but the annual
249 amortization of the acquisition adjustment is not disposed of in the entry recorded
250 to clear Account 104 at the time of purchase. It is an entry that is made annually.
251 It should certainly not be recorded as non-utility property. The acquisition
252 adjustment is the amount remaining in Account 104 after clearing the assets,
253 contributions and accumulated depreciation to their respective detail accounts.
254 The acquisition adjustment is then cleared to Account 114, Acquisition
255 Adjustment, and later amortized through an annual entry.

256 Q. Does Mr. Bratetic's journal entry on Third Revised Attachment 1 (Aqua Illinois Ex.
257 R-2.0 Second Revised) appear to follow the disposition of the annual
258 amortization of the acquisition adjustment as he describes above?

259 A. No. Fortunately Journal Entry # 4 on Third Revised Attachment 1 indicates that
260 the annual amortization would be recorded to the correct accounts as a debit to
261 Account 115, Accumulated Amortization of Utility Plant Acquisition Adjustment
262 and as a credit to account 421, Non-Utility Income. This is the correct treatment.

263 However, it is not made as part of the clearing entry as Mr. Bratetic describes in
264 his testimony.

265 **Staff Recommended Journal Entries**

266 Q. Are the Staff Recommended Journal Entries the same as you proposed in your
267 direct testimony?

268 A. Yes, with modifications described in earlier sections of this testimony. The
269 individual schedules that Schedule 5.1 presents are the journal entries proposed
270 in rebuttal testimony by the Company, in its Third Revised Attachment 1 (Aqua
271 Illinois Ex. R-2.0 Second Revised), the Staff adjustments to those entries and the
272 Staff proposed entries. My adjustments to the Company's proposed rebuttal
273 journal entries include the following:

- 274 1) Correction to remove tank painting costs from plant accounts (JE #2);
275 2) Recognition of contributions in aid of construction (JE #2); and
276 3) Recalculation of the Acquisition Adjustment (JE # 2).

277 **Journal Entry to Record Initial Purchase-Journal Entry #1**

278 Q. Did the Company agree to make the correct initial recording of the transaction
279 into Account 104 in accordance with Accounting Instruction 21?

280 A. Yes. Third Revised Attachment 1 (Aqua Illinois Ex. R-2.0 Second Revised)
281 includes the entry that I proposed in accordance with the USOA.

282 **Journal Entry to Record the purchase at closing-Journal Entry #2**

283 Q. Please explain the revision to Journal Entry # 2.

284 A. Journal Entry # 2 is the same as the Journal Entry # 2 presented in my direct
285 testimony with the exception of the revised amounts for CIAC and tank painting
286 to reflect adjustments that I discussed in earlier sections of this testimony.

287 **Journal Entry to Record the annual amortization of the Acquisition Adjustment-**

288 **Journal Entry #3**

289 Q. Please explain the revision to Journal Entry # 3.

290 A. I have revised Journal Entry # 3 to reflect the annual amortization of the
291 acquisition adjustment for the difference in the amount of the acquisition
292 adjustment and to reflect the change in my position regarding the recording of
293 CIAC amounts as an addition to plant. Since I am now proposing to record an
294 acquisition adjustment of \$(366,205), the amount of annual amortization I am
295 proposing is \$36,621.

296 **Summary Journal Entry-Journal Entry #4**

297 Q. Did you revise your summary Journal Entry?

298 A. Yes. I revised it to agree with amounts from my revisions in Journal Entry # 2.

299 **Forecasted Revenue Requirement**

300 Q. Please describe the forecasted revenue requirement you are presenting with this
301 testimony.

302 A. I have prepared a forecasted revenue requirement that has been updated to
303 reflect my adjustments to rate base and the operating income updates provided
304 by Aqua for the year 2005.

305 Q. Please explain the basis for this forecasted revenue requirement.

306 A. I used the most recently prepared revenue requirement for Aqua's Vermilion
307 division. The starting point for the forecasted revenue requirement schedules is
308 the Appendix attached to ALJPO in Docket No. 04-0442, the current rate
309 proceeding for Aqua's Vermillion Division.

310 Q. What changes did you make to the operating statement part of the revenue
311 requirement?

312 A. For the forecasted revenue requirement, I used the projected operating
313 statement information supplied by the Company. Aqua provided forecasted
314 operating statement information in the 3rd Revised GPC Exhibit 1 (Aqua Illinois
315 Ex. 1.0 Revised). This information was input as an adjustment to the revenue
316 requirement for the Company.

317 Q. What changes did you make to the rate base part of the revenue requirement?

318 A. I used the original cost information supplied in the Third Revised Attachment 1
319 (Aqua Illinois Ex. R-2.0 Second Revised), adjusted for my adjustments to CIAC,
320 the related amortization, and tank painting costs as plant additions, as presented
321 on my Schedule 5.1. This information was input as an adjustment to the revenue
322 requirement for the Company.

323 Q. Were there additional changes made to the projected operating statement and
324 rate base parts of the forecasted revenue requirements?

325 A. Yes. The revenue requirement template automatically calculates the tax effect of
326 each individual adjustment, so I did not use the company's forecasted amounts
327 of income tax. I generated the amount for cash working capital based on the 1/8
328 method.

329 Q. Have the amounts in the revenue requirement schedules been analyzed to
330 determine whether they represent a realistic forecast?

331 A. No. Staff, in the Vermilion rate proceeding, has reviewed the individual issues
332 imbedded within the revenue requirements that form the starting point for each of
333 the analyses in this case. However, Staff has not thoroughly reviewed or tested
334 the forecasted operating statement information for Philo provided by the
335 Company to determine if the basis under which it was prepared is sufficient.

336 Q. Do you believe this information is sufficient?

337 A. I believe it is sufficient for the purpose of comparing the general effect on the
338 rates of the company that the acquisition of the Philo water system could have. I
339 do not, however, believe it should be used to establish rates if the Commission
340 should decide that Philo would have its own rates. If the Commission were to do
341 that, Aqua should have a rate proceeding to determine its stand-alone rates.

342 **Recommendation**

343 Q. Do you have any recommendations?

344 A. Yes. I continue to recommend that the Commission:

- 345 1) Approve the journal entries I have proposed on Schedule 5.1;
346 2) Require the Company to file the actual journal entries including updated
347 accumulated depreciation with the Commission within six months of closing the
348 transaction, with a copy to the Commission's Manager of Accounting;
349 3) Require the Company to notify the Commission with a copy to the
350 Commission's Manager of Accounting of the status of the transaction within six

351 months of the order date if the actual journal entries to record the transaction
352 have not been filed with the Commission; and
353 4) Require the Company to record the annual amortization of the acquisition
354 adjustment in Account, 421, Miscellaneous Non-Utility income, which is a below
355 the line account, for a period of 10 years.

356 **Conclusion**

357 Q. Does this question end your prepared rebuttal testimony?

358 A. Yes.

**Aqua Illinois Acquisition of Village of Philo Water System
 Staff Recommended Journal Entries**

<u>Staff Accounting Entries with Corrections</u>			Entries Per Company	Staff Adjustment	Entries Per Staff	Source
Line No.	Account No.	Description	Debit/ (Credit)		Debit/ (Credit)	
	(a)	(b)	(c)	(d)	(e)	(f)
<u>Initial recording of purchase: Journal Entry # 1 - entry accepted by Co.</u>						
1	104	Water Utility Plant Purchased	\$ -	\$ 515,000	\$ 515,000	
2	131	Cash	-	(515,000)	(515,000)	
<u>Entry to record purchase at closing: Journal Entry #2 - journal entry to clear Account 104 to individual accounts:</u>						
3	104	Water Utility Plant Purchased	\$ -	\$ (515,000)	\$ (515,000)	Aqua Third Revised Attachment 1
4	108	Accum. Depr.-Structures and Improvements	(32,487)	-	(32,487)	Aqua Third Revised Attachment 1
5	108	Accum. Depr.-Power Generation Equipment	(6,401)	-	(6,401)	Aqua Third Revised Attachment 1
6	108	Accum. Depr.-Pumping Equipment	(3,671)	-	(3,671)	Aqua Third Revised Attachment 1
7	108	Accum. Depr.-Water Treatment Equipment	(13,967)	-	(13,967)	Aqua Third Revised Attachment 1
8	108	Accum. Depr.-Distr. Reservoirs & Standpipes	(42,585)	8,625	(33,960)	ICC St. Ex. 5.0, Sch. 5.2, page 2
9	108	Accum. Depr.-Mains	(195,235)	(96,679)	(291,914)	line 15
10	108	Accum. Depr.-Meters & Meter Installations	(79,449)	-	(79,449)	Aqua Third Revised Attachment 1
11	108	Accum. Depr.-Hydrants	(1,161)	-	(1,161)	Aqua Third Revised Attachment 1
12	114	Utility Plant Acquisition Adj	(392,174)	25,970	(366,204)	ICC St. Ex. 5.0, Sch. 5.4, page 1
13	131	Cash	(515,000)	515,000	-	Aqua Third Revised Attachment 1
14	271	Contributions in Aid of Construction	-	(491,538)	(491,538)	Aqua response to WD 1.07
15	272	Accumulated Amortization of CIAC	-	96,679	96,679	ICC St. Ex. 5.0, Sch. 5.3, page 2
16	303	Land and Land Rights	5,950	-	5,950	Aqua Third Revised Attachment 1
17	304	Structures and Improvements	56,182	-	56,182	Aqua Third Revised Attachment 1
18	310	Power Generation Equipment	6,401	-	6,401	Aqua Third Revised Attachment 1
19	311	Pumping Equipment	6,242	-	6,242	Aqua Third Revised Attachment 1
20	320	Water Treatment Equipment	13,967	-	13,967	Aqua Third Revised Attachment 1
21	330	Distribution Reservoirs and Standpipes	108,892	(34,595)	74,297	ICC St. Ex. 5.0, Sch. 5.2, page 1
22	331	Mains	992,615	491,538	1,484,153	Aqua response to WD 1.07
23	334	Meters and Meter Installation	86,402	-	86,402	
24	335	Hydrants	5,479	-	5,479	

**Aqua Illinois Acquisition of Village of Philo Water System
 Staff Recommended Journal Entries**

Line No.	Account No.	Description	Entries Per		Entries Per		Source
			Company Debit/(Credit)	Staff Adjustment	Staff Debit/(Credit)	Staff	
(a)	(b)	(c)	(d)	(e)	(f)		
<u>Staff Accounting Entries with Corrections</u>							
<u>To record annual amortization of Acquisition Adjustment: #3 - replaces Co. JE #4</u>							
<u>(This entry is a separate entry from JE # 2)</u>							
1	114	Utility Plant Acquisition Adjustment	39,217	(2,596)	36,621	ICC St. Ex. 5.0, Sch. 5.4, p. 3	
2	421	Non-Utility Income	(39,217)	2,596	(36,621)	ICC St. Ex. 5.0, Sch. 5.4, p. 3	
<u>Summary Entry: Journal Entry #4 - replaces Co. Summary Entry</u>							
<u>(This is not a separate entry. It summarizes JE # 2)</u>							
7	101	Utility Plant in Service	1,282,130	456,943	1,739,073	ICC St. Ex. 5.0, Sch. 5.1, page 1, col. (e), sum of lines 16-24	
8	108	Accumulated Depreciation	(374,956)	(96,679)	(471,635)	ICC St. Ex. 5.0, Sch. 5.1, page 1, col. (e), sum of lines 4-11	
9	131	Cash	(515,000)	-	(515,000)	Aqua Third Revised Attachment 1	
10	271	Contributions in Aid of Construction	-	(491,538)	(491,538)	ICC St. Ex. 5.0, Sch. 5.1, p. 1	
11	272	Accumulated Amortization on CIAC	-	96,679	96,679	ICC St. Ex. 5.0, Sch. 5.1, p. 1	
12	114	Utility Plant Acquisition Adjustment	\$ -	\$ (366,204)	(366,204)	ICC St. Ex. 5.0, Sch. 5.1, p. 1	

**Aqua Illinois Acquisition of Village of Philo Water System
 Adjustment to Distribution Reservoirs & Standpipes**

Line No.	Description	Per Company	Staff Adj.	Per Staff	Source
	(a)	(b)	(c)	(d)	(e)
	<u>Water Storage Tank Additions</u>				
1	unspecified addition	\$ 12,750	\$ -	\$ 12,750	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
2	unspecified addition	1,843	-	1,843	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
3	unspecified addition	39,014	-	39,014	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
4	Painting in 1977	13,459	-	13,459	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
5	unspecified addition	4,142	-	4,142	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
6	Painting in 1982	15,802	(15,802)	-	Co. response to WD 1.15
7	unspecified addition	2,063	-	2,063	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
8	unspecified addition	1,026	-	1,026	Aqua Ex. R-3.0 Revised, Schedule 1- 2nd Revised
9	Painting in 1989	18,793	(18,793)	-	Co. response to WD 1.15
10	unspecified addition	-	-	-	Aqua Third Revised Attachment 1
11	Balance	<u>\$ 108,892</u>	<u>\$ (34,595)</u>	<u>\$ 74,297</u>	

**Aqua Illinois Acquisition of Village of Philo Water System
 Adjustment to Distribution Reservoirs & Standpipes**

Line No.	Description	Per Company	Source
	(a)	(b)	(c)
1	Accumulated Depreciation-Structures & Improvements Per Company	\$ 42,585	Aqua Ex. R-3.0, Revised Schedule 1- 2nd Revised
2	Staff Adjustments:		
3	Accumulated Amortization-tank painting additions	(4,741)	Aqua Ex. R-3.0, Revised Schedule 1- 2nd Revised
4	Accumulated Amortization-tank painting additions	<u>(3,884)</u>	Aqua Ex. R-3.0, Revised Schedule 1- 2nd Revised
5	Total Staff Adjustments	\$ (8,625)	
6	Accumulated Depreciation-Structures & Improvements-Per Staff	<u>\$ 33,960</u>	

**Aqua Illinois Acquisition of Village of Philo Water System
 Adjustment to Contributions in Aid of Construction**

Line No.	Description	Per Company	Source
	(a)	(b)	(c)
1	Contribution in Aid of Construction	\$ 491,538	Aqua response to WD 1.07
2	Total of Mains	<u>992,615</u>	Aqua Ex. R-3.0, Revised, Schedule 1- 2nd Revised
3	Ratio of CIAC to Mains	0.495	line 1 / line 2
4	Total of Accum. Depr. Per Co.	<u>195,235</u>	ICC Staff Ex. 5.0, Sch. 5.1, page 1
5	Accumulated Amortization of CIAC	<u>\$ 96,679</u>	line 3 x line 4

**Aqua Illinois Acquisition of Village of Philo Water System
Adjustment to Acquisition Adjustment**

Line No	Description	Amount	Source
	(a)	(b)	(c)
1	Acquisition Adjustment per Staff	\$ (366,204)	ICC Staff Ex. 5.0, Sch. 5.4, p. 2
2	Acquisition Adjustment per Company	<u>(392,174)</u>	Aqua Ex. Third Revised Attachment 1
3	Difference-Staff Adjustment	<u>\$ 25,970</u>	

**Aqua Illinois Acquisition of Village of Philo Water System
 Adjustment to Acquisition Adjustment**

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Acquisition Adjustment per Staff	\$ 366,204	ICC St. Ex. 5.0, Sch. 5.4, p 2
2	Amortization period	10	Aqua Ex. Third Revised Attachment 1
3	Annual Amortization of Acq. Adj. per Staff	<u>\$ 36,621</u>	

**Aqua Illinois Acquisition of Village of Philo Water System
Calculation of Original Cost**

Line No.	Description (a)	Amount (b)	Source (c)
1	Original Cost per Staff	\$ 1,739,073	ICC St. Ex. 5.0, Sch. 5.5 p 2 line 10
2	Original Cost per Company	<u>\$ 1,282,130</u>	Aqua Ex. Third Revised Attachment 1
3	Difference-Staff Adjustment	<u>\$ 456,943</u>	

**Aqua Illinois Acquisition of Village of Philo Water System
 Calculation of Original Cost**

Line No.	Acct. No.	Description	Entries per Staff Debit/(Credit)	Entries per Company Debit/(Credit)	Difference	Source
		(a)	(b)	(c)	(d)	(e)
1	303	Land and Land Rights	\$ 5,950	\$ 5,950	\$ -	
2	304	Structures and Improvements	56,182	56,182	-	
3	310	Power Generation Equipment	6,401	6,401	-	
4	311	Pumping Equipment	6,242	6,242	-	
5	320	Water Treatment Equipment	13,967	13,967	-	
6	330	Dist. Reservoirs and Standpipes	74,297	108,892	(34,595)	Col. (b): ICC St. Ex. 5.0, Sch. 5.2, p. 1, col (d), line 11
7	331	Mains	1,484,153	992,615	491,538	Col. (b): ICC St. Ex. 5.0, Sch. 5.1, p. 1, col. (e), line 23
8	334	Meters and Meter Installation	86,402	86,402	-	
9	335	Hydrants	5,479	5,479	-	
10		Total-Original Cost	<u>\$ 1,739,073</u>	<u>\$ 1,282,130</u>	<u>\$ 456,943</u>	

Aqua Illinois Water Company with Philo
Forecasted Statement of Operating Income with Philo Adjustments
For the Test Year Ending December 31, 2004 with Philo acquisition

Line No.	Description	ALJPO Vermilion Operating Statement (Docket No. 04-0442, ALJPO Appendix, page 1	Staff Adjustments To Include Philo Acquisition (ICC Staff Ex. 5.0, Sch. 5.7)	Operating Statement With Philo Included (Cols. d+e)	Adjustment for Authorized Rate of Return (g)	Operating Statement with Philo at Authorized Rate of Return (Cols. f+g)
	(a)	(b)	(c)	(f)	(g)	(h)
1	Operating Revenue	\$ 11,916,177	\$ 234,232	\$ 12,150,409	\$ 8,983	\$ 12,159,392
2	Other Revenues	-	-	-	-	-
3	Total Operating Revenue	11,916,177	234,232	12,150,409	8,983	12,159,392
4	Uncollectible Expense	40,285	792	41,077	30	41,107
5	Wages & Salaries	1,011,671	15,900	1,027,571	-	1,027,571
6	Employee Benefits	454,877	-	454,877	-	454,877
7	Contractual Services	1,224,274	16,129	1,240,403	-	1,240,403
8	Operation and Maintenance Expense	1,321,092	68,905	1,389,997	-	1,389,997
9	Depreciation Expense	1,973,685	14,904	1,988,589	-	1,988,589
10	Regulatory Expense Amortization	73,580	-	73,580	-	73,580
11	Taxes Other Than Income	758,050	6,060	764,110	-	764,110
12	Miscellaneous Expense	12,344	12,237	24,581	-	24,581
13		-	-	-	-	-
14		-	-	-	-	-
15	Total Operating Expense					
16	Before Income Taxes	6,869,858	134,927	7,004,785	30	7,004,815
17	State Income Tax	259,251	4,906	264,158	643	264,801
18	Federal Income Tax	1,173,023	22,197	1,195,219	2,909	1,198,128
19	Deferred Taxes and ITCs Net	(24,044)	-	(24,044)	-	(24,044)
20	Total Operating Expenses	8,278,088	162,030	8,440,118	3,582	8,443,700
21	NET OPERATING INCOME	\$ 3,638,089	\$ 72,202	\$ 3,710,291	\$ 5,401	\$ 3,715,692
22	Forecasted Rate Base (ICC Staff Exhibit 2.0, Schedule 2.1)		896,108	42,906,377		\$ 42,906,377
23	Overall Rate of Return		8.06%	8.65%		8.66%

Aqua Illinois Water Company with Philo
Forecasted Rate Base with Philo Adjustments
 For the Test Year Ending December 31, 2004 with Philo acquisition

Line No.	Description	Staff		
		Staff Proposed Rate Base (Docket No. 04-0442 ALJPO Appendix, Sch. 5)	Adjustments To Include Philo Acquisition (St. Ex. 5.0 Sch 5.9)	Rate Base With Philo Included (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	\$ 67,450,368	\$ 1,739,073	\$ 69,189,441
2	Accumulated Depreciation	(18,369,743)	(463,010)	(18,832,753)
3		-	-	-
4	Net Plant	49,080,625	1,276,063	50,356,688
5	Additions to Rate Base			
6	Property Held for Future Use	-	-	-
7	Deferred Charges	671,058	-	671,058
8	Materials and Supplies	318,515	-	318,515
9	Cash Working Capital	548,448	14,904	563,352
10	Amort of CIAC	1,468,030	96,679	1,564,709
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(274,288)	-	(274,288)
18	Customer Advances	(1,009,261)	-	(1,009,261)
19	CIAC	(3,915,663)	(491,538)	(4,407,201)
20	Deferred Income Taxes	(4,877,195)	-	(4,877,195)
21	Rate Base	<u>\$ 42,010,269</u>	<u>\$ 896,108</u>	<u>\$ 42,906,377</u>

Aqua Illinois Water Company with Philo
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2004 with Philo acquisition

Line No.	Description (a)	Amount (b)
1	Gross Utility Plant in Service	\$ 42,906,377 (1)
2	Weighted Cost of Debt	3.43% (2)
3	Synchronized Interest With Philo Included	1,471,689
4	Interest Expense Per Docket No. 04-0442, Staff IB Appendix A, Sch. 5	<u>1,440,709</u>
5	Increase (Decrease) in Interest Expense	<u>30,980</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.180%	<u>\$ (2,224)</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ (10,064)</u>

(1) Source: ICC Staff Ex.5.0, Schedule 5.8, Column (d).
 (2) Source: Docket No. 04-0442 ICC Staff Exhibit 7.0, Schedule 7.1.

Aqua Illinois Water Company with Philo
 Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2004 with Philo acquisition

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.3381%	<u>0.003381</u>	
3	State Taxable Income		0.996619	1.000000
4	State Income Tax	7.1800%	<u>0.071557</u>	<u>0.071800</u>
5	Federal Taxable Income		0.925062	0.928200
6	Federal Income Tax	35.0000%	<u>0.323772</u>	<u>0.324870</u>
7	Operating Income		<u>0.601290</u>	<u>0.603330</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.663091</u>	<u>1.657468</u>

Aqua Illinois Water Company with Philo
Adjustment to Cash Working Capital
For the Test Year Ended December 31, 2005

<u>Line No</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
	(a)	(b)	(c)
1	Cash Working Capital per Staff	\$ 563,351	ICC Staff Ex. 5.0, Sch. 5.12, p. 2
2	Cash Working Capital per Company	<u>548,448</u>	Docket No. 04-0442 ALJPO Appendix, Sch. 5
3	Difference-Staff Adjustment	<u>\$ 14,903</u>	

Aqua Illinois Water Company with Philo
 Adjustment to Cash Working Capital
 For the Test Year Ended December 31, 2005

Line No	Description (A)	Amount (B)	Source
1	Total Operating Expenses (Pre Income Tax)	\$ 7,004,815	ICC Staff Ex. 5.0, Sch. 5.6
2	Less:		
3	Uncollectible Accounts Expense	41,107	ICC Staff Ex. 5.0, Sch. 5.6
4	Annual Amortization of Rate Case Expense	73,580	ICC Staff Ex. 5.0, Sch. 5.6
5	Depreciation Expense	1,988,589	ICC Staff Ex. 5.0, Sch. 5.6
6	Real Estate Tax Expense	<u>394,728</u>	Docket No. 04-0442 Aqua Sch. C-18
7	Operating Expenses Requiring Working Capital	\$ 4,506,811	Line 1 minus the sum of Lines 3 through 6
8	45 (lag days)/360 (30 day/month/year)	<u>12.50%</u>	
9	Total Cash Working Capital With Philo	\$ 563,351	Line 7 multiplied by Line 8
10	Total Cash Working Capital	<u>548,448</u>	Docket No. 04-0442 ALJPO Appendix, Sch. 5
11	Adjustment to Cash Working Capital	<u><u>14,903</u></u>	Line 9 minus Line 10

ILLINOIS COMMERCE COMMISSION
DOCKET No. 04-0362

RESPONSE OF AQUA ILLINOIS, INC.
TO ICC DATA REQUEST NO. WD 1.15

Witness Responsible:
Gerard P. Connolly
Vice President and Division Manager
217.443.8538. x115

WD 1.15. Referring to Water Storage Tank Additions on Page 1 of Schedule 1 and Sheet 3 of Schedule 3 of the Direct Testimony of Mr. Monie, please provide a description of each Miscellaneous and the New Construction Work Plant Addition.

Response: The Village of Philo had made various miscellaneous improvements to the 50,000 gallon elevated storage tank over the years. The miscellaneous plant additions in 1977 for \$13,459, in 1982 for \$15,802 and in 1989 for \$18,793 were various tank painting projects. Other improvements would appear to have been the replacement of tension struts, safety ladders and hatches. However, detail of the improvements made by the Village is not readily available.

ILLINOIS COMMERCE COMMISSION
DOCKET NO. 04-0362

RESPONSE OF AQUA ILLINOIS, INC.
TO ICC DATA REQUEST NO. WD 1.15

Witness Responsible:
Gerard P. Connolly
Vice President and Division Manager

FIRST SUPPLEMENT

WD 1.15. Referring to Water Storage Tank Additions on Page 1 of Schedule 1 and Sheet 3 of Schedule 3 of the Direct Testimony of Mr. Monie, please provide a description of each Miscellaneous and the New Construction Work Plant Addition.

Response: The Village of Philo had made various miscellaneous improvements to the 50,000 gallon elevated storage tank over the years. The miscellaneous plant additions in 1977 for \$13,459, in 1982 for \$15,802 and in 1989 for \$18,793 were various tank painting projects. Other improvements would appear to have been the replacement of tension struts, safety ladders and hatches. However, detail of the improvements made by the Village is not readily available.

Supplement: Mr. Connolly previously responded that the plant additions in 1997 of \$13,459, 1982 of \$15,802 and 1989 of \$18,793 were "various tank painting projects." Mr. Connolly made that statement solely based on his review of the Village of Philo's books that summarily reference these expenses as "tank painting projects." Upon further consideration and review of information, it is not Mr. Connolly's opinion that these expenses primarily were for tank painting if at all. Mr. Connolly's opinion is based on two factors. First, his experience with Aqua Illinois, in which capacity he knows that it costs a significant amount more than even the largest expense referenced as tank painting (\$18,793 in 1989) to paint a tank. Second, the records of the Village's engineer, HDC Engineering, identify: (i) the 1977 expense of \$13,459 as being incurred for maintenance and improvements to the tank, and (ii) the 1982 expense of \$15,820, while for work the nature of which was not recorded, as being paid to Caldwell Tanks, the company that manufactured the tank, and, therefore, the expense was also most likely incurred for maintenance and repairs. For these reasons, it is Mr. Connolly's opinion that these expenses were incurred for tank maintenance and improvements, which improvements may have been painted to blend the improvements into the overall tank color.

ILLINOIS COMMERCE COMMISSION
DOCKET NO. 04-0362

RESPONSE OF AQUA ILLINOIS, INC.
TO ICC DATA REQUEST NO. WD 1.07

Witness Responsible:
Gerard P. Connolly
Vice President and Division Manager
217.443.8538 x115

WD 1.07. Please provide a detailed breakdown, by account, of any contributions to the Village of Philo from the customers, other than tap-on-fees.

Response: The Village of Philo did not keep accurate records of the breakdown of contributions. The total contributions are booked at \$491,538, which consists of cash and property.

ILLINOIS COMMERCE COMMISSION
DOCKET NO. 04-0362

RESPONSE OF AQUA ILLINOIS, INC.
TO ICC DATA REQUEST NO. WD 1.07

Witness Responsible:
Gerard P. Connolly
Vice President and Division Manager

FIRST SUPPLEMENT

WD 1.07. Please provide a detailed breakdown, by account, of any contributions to the Village of Philo from the customers, other than tap-on-fees.

Response: The Village of Philo did not keep accurate records of the breakdown of contributions. The total contributions are booked at \$491,538, which consists of cash and property.

Supplement: Aqua's Original Cost Study prepared by its witness Mr. David Monie (Schedule 1 of Aqua Ex. 3.0 Revised) did not include any contributed plant or plant constructed from cash contributions.