STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Aqua Illinois, Inc.	)	
	)	
Proposed General Increase for Water and Sewer Rates for the Woodhaven Division	)	Docket No. 05-0071
	)	
Proposed General Increase for Water Rates For the Oak Run Division	)	Docket No. 05-0072

First Amended
Rebuttal Testimony of

THOMAS J. BUNOSKY

Vice President and Regional Manager
of Aqua Illinois, Inc.

June 16, 2005

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I. WITNESS INTRODUCTION

Q. Please state your name and business address.

A. My name is Thomas J. Bunosky and my business address is 1000 South Schuyler Avenue, Kankakee, Illinois 60901.

Q. Have you previously submitted testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. First, I will comment on the basis for Aqua Illinois Inc.'s ("Aqua's" or the "Company's") proposed amortization period for Oak Run rate case expense. Second, I will respond to the direct testimony of the Woodhaven Association ("Association") witness Mr. Jeffrey Hickey.

II. AMORTIZATION PERIOD FOR OAK RUN RATE CASE EXPENSE

Q. In explaining why the seven amortization year period Staff proposed is inappropriate, Mr. Schreyer explained that the "Company's amortization periods should be a function of when Aqua will likely file its next rate applications for these Divisions as opposed to when it submitted its most recent historical ones." When does Aqua anticipate it will file its next rate application for Oak Run?

A. The Company anticipates that it will file another rate application for Oak Run in 2007.

Q. What is the basis for the Company's expectation?

A. Aqua anticipates it will install a Reverse Osmosis plant for the Division in 2007, and the capital investment associated with this project will require a new rate application.

Q. Staff witness Ms. Pearce has argued that Aqua's plan for the Reverse Osmosis plant is not acceptable evidence of the next rate application date because a final decision to move forward with the plant has not been made. (Staff Ex. 1.0, p. 17). Would you please respond?

A. Yes. The Company is of the opinion that the Reverse Osmosis plant would be a beneficial investment for the Division and has made a final decision to take the steps necessary to lay the groundwork for presenting the investment to its customers. In particular, the preliminary engineering has been completed and the estimated capital cost of the facility has been derived. Aqua is scheduled to present the information on the plant to its customers during the summer of 2006, at which time Aqua's customers will be asked to vote on whether to install the plant. If the majority of customers vote in favor, then the installation of the plant will take place in 2007. The capital investment associated with this project will necessitate a rate case for the Division in 2007.

Q. For purposes of evaluating whether customers will vote in favor of the Reverse Osmosis plant, has Aqua estimated the approximate rate increase to recover the cost of the plant?

A. For purposes of evaluating the likelihood of the Reverse Osmosis plant, I have put together a simplistic analysis. I will note upfront that this analysis is only for purposes of example and is not intended to represent Aqua's position on the appropriateness of any single factor assumed for purposes of the analysis. Issues relevant to the plant, rather, will be determined within the context of the next rate case that would be filed for Aqua to recover the investment of the plant. Aqua reserves its rights to address all aspects of the

plant investment and cost recovery, and other related issues, within the context of that case.

Based on these qualifications, I have estimated an approximate rate increase of $9.72 for all customers (Availability and Users = 2,599). Aqua's preliminary groundwork has identified an estimated capital cost for the facility of $1,400,000. The revenue requirement for the capital would be approximately $238,000 (17% of $1,400,000). The increased operating costs (chemicals, power, etc.) are currently estimated to be approximately $65,000 per year. The total increased revenue requirement, therefore, is estimated at $303,000 per year. This would result in the approximate $9.72 per month increase per customer I have identified as the current estimate.

Q. In your opinion, is there a reasonable likelihood that Aqua's customers will vote to install the plant?

A. Yes. There is a reasonable likelihood that the Reverse Osmosis plant will be installed because the plant would bring substantial benefits to the Division. A Reverse Osmosis plant would treat the system's well water, which is currently high in Fluoride, Total Dissolved Solids, Sodium and Chlorides. More particularly, the plant would reduce the Fluoride levels in the water to the secondary standard level. Currently, Oak Run has elevated Fluoride levels of 2.4 mg/l. The secondary standard is 1.2 mg/l. Aqua must provide its customers with annual notice of this elevated level and the adverse effects on tooth development. The Reverse Osmosis plant would correct this deficiency. In addition, the Division's water currently has 500 mg/l of Sodium. No state standards are set for Sodium in the water; but, the health industry recommends a level of 20 mg/l in drinking water, especially for the elderly and persons on sodium restricted diets. The

Reverse Osmosis plant would reduce the sodium level in the water to below 20 mg/l. The Total Dissolved Solids in the water are currently at 1,300 mg/l. The recommended secondary standard is 500 mg/l. The Reverse Osmosis plant would reduce the Total Dissolved Solids level to below 250 mg/l. Another benefit of the plant would be the elimination of the need for any customer to further treat the water for removal of these items. In addition, it would eliminate the need to purchase bottled water. Due to the very high mineral content in the water, the water has a unique taste that is objectionable to many persons and results in the purchase of bottled water. Hot water heaters, water appliances and plumbing would also have extended useful lives for the customers because, with Reverse Osmosis treated water and the reduction of the mineral content in the water, the water would not be as "aggressive" to these devices as it is today.

In my opinion, the benefits of this treatment far outweigh the costs associated with installing the plant. Further, given these benefits, it is my opinion that the Division's customers will vote in favor of installing the plant. Certainly, Aqua would not have taken the considerable steps it has to date in preparation of the plant if the Company did not believe that its customers would be in favor of installing the plant.

Q. Staff notes that Aqua has been considering a Reverse Osmosis plant for the Division for two years. (Staff Ex. 1.0, p. 17). What has changed now?

A. Staff incorrectly implies with its comments that the Company has not considered the plant a serious option simply because the plant has not yet been installed. This is not the case. It takes time to prepare for projects of this size. Contrary to Staff's implication, the fact that Aqua has already spent two years reviewing the option is evidence that Aqua is serious about installing the plant, not the opposite. Aqua would not spend such effort

conducting the necessary evaluation of the plant details if Aqua did not believe that the plant would be installed.

Q. How do you respond to Ms. Pearce's suggestion that, given the 64% rate increase Aqua has proposed for Oak Run in this case, customers may not want to increase rates again within three years to pay for a Reverse Osmosis plant? (Staff Ex. 1.0, p. 18).

A. I think that this suggestion focuses erroneously on a percentage without any consideration of the actual monetary amounts involved. The reality is that Aqua's current rates are extremely low. Even small monetary increases of low amounts will appear as large percentages. As an extreme example, a penny increase of a penny is an increase of 100%. It can be very misleading, as this example demonstrates, to use a percentage to represent an increase of a small amount.

In the case of the present rate request for Oak Run, the current average monthly customer user bill is approximately $20 per month, which equates to only $240 per year. This is comparatively low for water utility service. Even with the percentage increase Aqua has requested in this case, the rates for service in Oak Run will still be very reasonable. I do not believe our Oak Run customers will forego the benefits of a Reverse Osmosis plant simply because their low water rates were recently increased to a level that remains affordable.

III. RESPONSE TO WOODHAVEN ASSOCIATION

A. NEED FOR THE RATE APPLICATION

Q. The Association's witness Mr. Hickey claims that Aqua has misrepresented the reasons for this rate application. (WA Ex. 1.00, pp. 6-8). Please respond.

A. Mr. Hickey implies that Aqua has somehow been unforthcoming with the Association simply because Aqua did not specifically list collections in its public notice as a reason for the Woodhaven rate application. However, the public notice was never intended to include an exhaustive list of each and every factor contributing to the need for the filing. That would be a near impossibility as the factors are numerous. It takes the entire rate case filing to fully set forth the basis for the rate request. The reasons listed within the notice are valid reasons for the rate application - the stated reasons just do not constitute an entire list of all the reasons.

Further, Aqua agrees that collections is a major problem within the Woodhaven service area. Aqua has never attempted to hide this fact from the Association. The opposite is true. Aqua has shared with the Association, on many occasions, the fact that bad debt in the area is extremely high. Aqua has repeatedly attempted to work with the Association to solve the problem. There is nothing in Aqua's past actions that could possibly indicate the Association has not received notice, on more than one occasion, of the collections problem. While Aqua may not have specifically listed the problem within the public notice for the filing, Aqua repeatedly told the Association – the representative of the customers in the service area – of the problem and its end result on rates.

Q. Are there documents that support your position that Aqua has informed the Association that collections is a problem in the Woodhaven area?

A. Yes. Many of the documents that support my position are Exhibits attached to Mr. Hickey's direct testimony. In particular, Exhibits WA 1.01 to 1.05 all contain documents that evidence Aqua's efforts to provide the Association with information on the collections problems and implement appropriate mechanisms to resolve the problem.

Q. Is there any further support for your position?

A. Yes. The Associations witness Mr. Hickey even discusses the fact that Aqua has repeatedly told the Association of, and provided the Association with information related to, the collections problem. I do not understand how the Association can imply some sort of unfairness in notice when its own witness discusses the ongoing notice of this problem that Aqua provided to the Association.

Q. Do you have any further comments on this issue?

A. Yes. I think it is disingenuous of the Association to imply, simply because Aqua did not include collections in the public notice, that the Association did not have actual and continuing notice of the collections problem and its impact on rates. Aqua gave the Association actual notice on many occasions over the course of the several years leading up to Aqua's rate application. Aqua has never mislead the Association by acting like collections is not an issue.

Q. Aqua identified increased expenses as one of the reasons for the rate application in the public notice. Mr. Hickey criticizes the Company for stating it keeps a tight rein

on expenses, implying that the statement is not true. (WA Ex. 1.00, pp. 9-10). How do you respond?

A. Aqua does try to keep a tight rein on expenses. There are several flaws with Mr. Hickey's allegation to the contrary. First, it is a conclusion made at a high level. Mr. Hickey does not identify any specific expense that he claims has been imprudently incurred. One cannot reach the conclusion that Aqua has not kept a tight rein on expenses without examining whether the actual expenses incurred have been prudent. Second, Mr. Hickey employees a percentage-based analysis that suffers from the same flaw I discussed above. In particular, he alleges that, from 2000 to 2005, Aqua had a 175% increase in O&M expense for the Woodhaven Division. He further alleges that the expense increases that did occur should be industry wide, but that Aqua Illinois, Inc.'s total company O&M only increased 28%. (WA Ex. 1.00, pp. 9-10). This analysis ignores the fact that the Woodhaven Division is a small Division, and O&M expense has been low in the past. Even a small increase will represent itself as a large percentage. Second, the comparison Mr. Hickey sets forth between the Woodhaven Division and total Aqua Illinois, Inc. is also misleading. Whereas the Woodhaven Division is small, total Aqua Illinois, Inc. is significantly larger. This means that total Aqua Illinois, Inc. O&M expense is significantly larger too. A similar dollar amount increase in O&M expense for both the Division and total Aqua Illinois, Inc. will represent itself as a large percentage increase with respect to the Division but as a significantly smaller percentage increase with respect to total Aqua Illinois, Inc. Mr. Hickey's high level implication that Aqua has spent recklessly when it comes to the Woodhaven Division simply does not withstand scrutiny.

Q. Are there additional facts that support Aqua's position that it does work to maintain O&M expense?

A. Yes. The Woodhaven Water and Wastewater Divisions continue to operate with the three full time employees that they have had for many years. Aqua's ability to serve the Divisions in this manner is, in part, the result of the efficiencies that it has been gained.

Q. Do you have any other comments with regard to the public notice?

A. Yes. The purpose of the public notice is primarily to inform customers within the service area that an application has been filed and of the manner in which intervention could be made. I would note that this intended purpose of the public notice has been fulfilled as the Association has intervened and is actively participating in this case on behalf of the customers.

Q. Mr. Hickey implies that the Commission's 48% water rate increase for the Division in 2000 should negate the need for the pending application. (WA Ex. 1.00, p. 6). Please respond.

A. The 2000 water rate increase for the Division was fully justified for capital and operating expenditures at that time, as the Commission itself found. The company is entitled to a reasonable return, and the ICC determined an increase was needed for Aqua to recover that return. The present application stands on its own, independent merit.

Q. The Association also asserts that Aqua has changed its reasons for and amount of the rate request over the past several years, again implying that Aqua has been misleading. How do you respond?

A. Aqua has continually attempted to work with the Association and to provide it with the most up-to-date information available. This rate application uses a future test year. This necessitates the Company preparing its best forecast of future operating and capital cost rather than simply reviewing historical fact. In an effort to keep the Association well informed of the Company's plans and intentions, I met with the Association a year and a half prior to the case being filed and two and half years in advance of the end of the test year. At that time, the rate application was far from finalized. I met with the Association several more times before the application was filed. Each time, the rate application was a work in progress and incorporated changes based on the most recent, up-to-date information available. Certainly, the capital projects that were included within the filing changed over the course of this time as Aqua became better informed of the actual projects that would be completed. The dollar amounts changed to match Aqua's changing information. Nonetheless, Aqua provided this information to the Association, in good faith, on an on-going basis. While the information changed over time, there was nothing false about it at the time it was presented. Some issues were legitimately resolved and others legitimately arose and become known over time. Aqua made the new issues known to the Association upon their discovery.

Q. During your meetings with the Association, did you ever represent the information on the Company's rate application, such as the capital projects that would be included and the percentage increase, as definitive and final?

A. No. At the time of each meeting with the Association, I always addressed the reasons and the amount of the rate increase in the light that the items were still being compiled and could change when the case was finalized. To be more precise, I have always

informed the Association that the collections problem would be a reason for the rate increase. At the time of the meetings, the capital projects discussed were the items known to be included for the increase at the time. However, because these meetings began in 2003 if not earlier and the test year for the case is 2005, projections and budgets were in the process of being determined and finalized for three years. I always represented the items as the Company best estimates at the time and subject to change.

Q. How do you feel about the Association using the information you provided it during these meetings to suggest that you have been misleading?

A. I am very disheartened. The Association essentially faults Aqua for trying to keep communications open. I tried in good faith to keep the Association informed, and feel that it is now attempting to use my good faith efforts against the Company by alleging me to have misrepresented the facts. If my intention had been to misrepresent the information, I would never have taken the time and effort to schedule meetings with the Association to share any information.

Q. Do you have any further comments on this issue?

A. Yes. I also feel that the Association is unfairly attempting to turn this case away from the merits of Aqua's application. The Association implies I misled them – I disagree. Unfortunately, the Association is making representations as to statements that were made during meetings over the course of the past several years. It would be impossible for the Commission to go back in time to evaluate the validity of any of the Association's allegations. Nonetheless, by making the implications, the Association has taken some focus away from the merits of Aqua's filing.

Q. In discussing that Aqua did not file its rate application in 2002, Mr. Hickey states the Association determined "the delay had something to do with [Qualified Infrastructure Plant ("QIP")] Rider Reconciliation," notice of which was published in July 2004. (WA Ex. 1.00, p. 7). Is it true that Aqua's QIP reconciliation was the reason Aqua did not file in 2002?

A. No. Aqua's decision not to file in 2002 had nothing to do with its annual QIP reconciliation.

Q. Do you have any further comments in response to the Association's implication that Aqua was somehow improper in delaying its filing?

A. Yes. Ultimately, the Association benefits from the delay, not Aqua. Any rate increases that are the outcome of this proceeding would have been instituted sooner had Aqua filed sooner. Mr. Schreyer discusses this fact further in his rebuttal testimony.

Q. Mr. Hickey further alleges that nothing has changed for Aqua in the last fifteen years, other than its corporate parent, that would create a need for a rate increase. (WA Ex. 1.00, p. 1) Do you agree?

A. Absolutely not. The water and wastewater industry has experienced tremendous change in the last 15 years. Numerous regulations have been instituted that the Company must comply with. As an example, in Woodhaven, the Illinois Environmental Protection Agency ("IEPA") has reduced the allowed radium levels in the water. This has resulted in numerous pilot studies to determine the most cost effective alternative when reviewing the issue from both the water and wastewater side. These increased regulations have also increased the amount of oversight, review and engineering studies that must be

completed to address this increased level of regulation. Increased oversight is a necessity not a luxury. As I noted above, the Woodhaven Divisions continue to operate with the three full time employees that they have had for many years. Apart from the efficiencies it has gained, Aqua's ability to do so is the result of the increased corporate support staff that the Company has in place to assist the operations. In other words, the corporate leadership has recognized the tremendous industry changes and has established support staff to meet these ever increasing regulations on the water and wastewater industry. A statement that the water and wastewater industry has not changed in the last fifteen years simply evidences a lack of industry knowledge.

Q. Do you have any further comments on this issue?

A. Yes. I believe that Mr. Hickey's allegation is again a high level one that was made without any real examination of the underlying facts. As I will discuss further herein, the Company has worked very cooperatively with the Association in the past and hopes to continue doing so. My comments are not intended in any way as disrespect. However, Mr. Hickey and I have very different job responsibilities. The Association only perceives Aqua's operations from a consumer perspective – it is not immersed in the day-to-day operations. The Association may have only perceived a change in corporate ownership simply because the Association does not experience the day-to-day life of operating the system; but, time has not stood still in terms of Aqua's system. The need for a rate increase is the comprehensive result of all aspects of the systems operations over time. In terms of the basis for the requested rate increase, Aqua's entire rate application is the support. It evidences that Aqua needs relief now in order to achieve its allowed return. The Commission Staff, as discussed by Mr. Schreyer, has and is continuing to conduct an

exhaustive examination of Aqua's rate application. Through discovery, the Company has turned over to both Staff and the Association boxes of additional support for the application outside of the information provided in the original filing. Any allegation that support does not exist for a rate increase totally ignores the entirety of this evidence.

Q. Is there a part of this large amount of evidentiary support you can quickly point to as showing a need for a rate increase?

A. Yes. In response to Staff data request JF 1.05, Aqua provided Staff and the Association with Income Statements for the Woodhaven Water and Sewer Divisions for the year ended December 31, 2004. The Woodhaven Water Division lost ($100,428) in 2004, and the Woodhaven Sewer Division lost ($12,519). Clearly, in consideration of these negative profits, Aqua is not recovering its allowed return.

Q. Mr. Hickey next alleges that the Association has received poor quality service ever since Aqua was under new corporate management. (WA Ex. 1.00, p. 5). Please respond.

A. I do not believe it is true. With the exception of radium, which Aqua is currently working to address, the Company has and continues to meet all standards for water and wastewater. The Company has an 800 phone number for the customers. Its Division employees are courteous and helpful to customers. Aqua tracks all calls made to the office, and no complaints have been received about any of the Woodhaven employees from the approximately 11,575 customers that the company serves. In fact, to date since the Company's aggressive collection efforts have been instituted (discussed below) no Commission complaints have been received on the collection efforts. Aqua takes great strides to work with the customers and provide excellent customer service in a very

courteous and helpful manner. I just do not believe the allegation made by Mr. Hickey is supportable.

B. <u>COLLECTIONS PROBLEM</u>

Q. You testified above that the collections problem has an "end result" on rates. Would you please explain that testimony?

A. Yes. Everyone is impacted when a customer does not pay his or her bill because the cost of providing service to that customer has to be borne by someone. When a lot of people do not pay their bills, as is the case in Woodhaven, then it is unfair to everyone because the cost of providing service to all those non-paying customers will need to be recognized in rates. The paying customers will see higher rates because the non-paying customers are contributing nothing.

Q. What efforts has Aqua made to reduce the number of customers who do not pay their bills?

A. Aqua has instituted numerous changes to address the collections issue and has worked with the Association on many of the measures. The Company has instituted that payments can be made at the local bank and at the Association offices. Aqua has sent numerous letters to delinquent customers prior to taking any action on collections. The Company has also placed ads in the Association paper. In addition, the Company has installed shut off valves where it believed appropriate and has worked with the Association's security office to monitor any theft of service once an account has been disconnected. Further, Aqua has worked with the Association's office to insure that Aqua's billing records are the same as the Association's because Aqua has no way of

monitoring ownership changes internally as, with the exception of the new shut off valves Aqua has installed in some places, service is never disconnected, thereby eliminating the need for customers to sign up for service. Aqua has also worked with the Association to determine if delinquent customers are current in their Association dues in order to determine if Aqua should pursue other collection efforts against those customers. We have furthermore worked with the Association in obtaining their advice on foreclosure and the experience that the Association has had with that measure. The Association has indicated numerous times that foreclosure is too expensive to pursue past the Lien filing level. Aqua has instituted all suggestions that the Association has offered.

Q. You mentioned that Aqua has installed shut off valves where appropriate. Would you please explain further?

A. Yes. Mr. Hickey correctly notes that Association customers are billed a flat fee for water service regardless of the amount of water they use. Less than fifty meters exist in the development. When the development was constructed by the developer, one water service line was installed for every two lots and no meter installations were made. To install a shut off valve and meter to one lot, two service lines need to be installed, a two shut off valve installed, etc. One installation costs is approximately $400 and, therefore, prohibitive in cost ($2,440,000) to install on all the lots today. Aqua only makes the installation in limited circumstances when the customer has paid the Association Dues and real estate taxes, and is using the lot on a regular basis. Even then, the success of installing a shut off valve has been limited because the delinquent customers simply forego using water service when using their campsites.

Q. Please describe further the volume of effort Aqua has put toward these collection methods.

A. Since Aqua has instituted more aggressive collection efforts, it has sent over 8,000 collection letters, filed over 1,400 Liens on properties, installed over 200 shut off valves and, currently, has turned off over 60 customers for non-payment.

Q. Are you able to provide examples of the type of advertisement Aqua has placed in the Association's publications?

A. Yes. Items that were published between April 2004 and March 2005 are submitted as Attachment A hereto.

Q. Mr. Hickey speculates that Aqua has not wanted to discuss the collections problem within the context of this case because Aqua allegedly received a bad decision from the Commission on the issue recently. Is this true?

A. No. First, as I discussed above, Aqua has never attempted to hide the collections problem in the Woodhaven service area, least of all from the Association. Aqua has welcomed the Association's participation in its attempts to resolve this problem and will continue to do so.

Second, the case Mr. Hickey references is Docket No. 02-0155. In that case, Aqua requested Commission authority to recover the costs of pursuing liens to foreclosure from the delinquent customers. While the Commission did not grant that request, Aqua certainly does not consider the decision a bad one with regard to any issue relevant in this case. Docket No. 02-0155 simply did not address general rate issues, including Aqua's ability to recover its bad debt expense through rates.

Moreover, I think that Docket No. 02-0155, once again, demonstrates just the opposite of what Mr. Hickey implies. Aqua came before the Commission voluntarily in that case to explain the existing collections problem in the Woodhaven service area and seek some relief. This demonstrates that Aqua has never sought to hide the problem from Commission or the Association. Further, the parties in that case, namely Staff and the Citizens Utility Board, provided suggestions on less drastic actions that could be tried to increase collections without resort to the foreclosure option. Aqua listened to those parties and, as I discussed above, has actually tried to reduce bad debt through many of the options those parties suggested.

Q. Has Aqua kept the Association informed on the success of its efforts in this regard?

A. Yes. The Company has met with the Association a number times to inform them of the progress the Company has been making on the collections issue and to solicit the Association's input and assistance. Aqua has kept the Association informed of the progress, the measures that it has been taking, the success and the lack of success of the measures. Overall, I think this demonstrates that Aqua has attempted to work cooperatively and openly with all interested parties to resolve this issue.

Q. Has Aqua asked the Association's assistance in implementing several collections efforts?

A. Yes. As Mr. Hickey even acknowledges, Aqua approached the Association as early as May 2003 to seek the Association's assistance in implementing several different collections options. The options Aqua proposed to the Association are listed at page 4 of 4 of the meeting agenda packet, which is attached to Mr. Hickey's direct testimony at as

Exhibit WA 1.01. The same page of the agenda packet identifies many efforts that Aqua was also pursuing to address the collections problem.

Q. Did the Association agree to assist Aqua in these efforts?

A. Yes, with some of the options but not all of them. Aqua has very much appreciated the Association's past efforts toward resolving the collections problem. Unfortunately, the parties' joint efforts have not made the problem disappear.

Q. Mr. Hickey states that Aqua has previously implied to Association members that the Association's Board has not cooperated with the collections problem. Is this true?

A. No. The Company would never have intended to make such an implication. As I stated, Aqua is very thankful to the Association for its past assistance with the collections problem.

Q. Has Aqua implemented all of the collection mechanisms to which the Association has agreed?

A. Yes.

Q. Has the Association ever suggested alternative collection methods to Aqua?

A. No.

Q. Mr. Hickey claims that the collections information Aqua has provided the Association, and represented as fact to the Association customers, has not been accurate. (WA Exhibit 1.00, p. 7). Would you please comment?

A. Yes. Mr. Hickey claims that Aqua provided inaccurate information to the effect that the Association customers were 30% in arrears when the Aqua's aged receivables schedule

allegedly showed that the number of customers in arrears were less than 9%. Mr. Hickey is correct that approximately 9% of the Association customers are in arrears. However, these 9% of the Association customers are currently in arrears to the amount of $420,000. This amount represents approximately 30% of Aqua's annual billings for the area.

Q. How do you respond to Mr. Hickey's claim that 100 accounts had incorrect customer information? (WA Exhibit 1.00, p. 7).

A. The association has access to the records as the customer must change the name on the new owner to gain access to the property. Aqua does not have any means to monitor change of ownership. Mr. Hickey is correct that the Association works with Aqua in change of ownership; but, if the address is wrong, the bill not paid, and there is no response from the customer, Aqua has no way to distinguish a mistake from a customer that is ignoring his or her bill. With over 11,500 customers, numerous changes in ownership over the years, and the limitations with which Aqua is faced in tracking customer changes, a mere 100 accounts should be recognized as a very good grade and certainly within the bounds of reason. Further, the truth simply is not as Mr. Hickey alleges. Aqua is using the information the Association provides as well as every other piece of information and idea to obtain payment. As soon as any discrepancies in customer ownership become known, Aqua makes the correction.

Q. Mr. Hickey also claims that in the Spring of 2004, Aqua provided the Association with trial balances that were allegedly inconsistent with the 2003 information Aqua provided. (WA Exhibit 1.00, p. 7). Please respond.

A. There were no erroneous inconsistencies between the reports. The difference was that the first set of reports had all accounts, both current and past delinquent, which increased the

number of delinquents. Aqua has moved the inactive customers, i.e., those who have sold their property but not paid, from aged receivables to bad debt expense.

Q. Finally, is Mr. Hickey's assertion that Aqua was not responsive to the Association's request for aged receivables accurate?

A. No. Aqua provided the Association with the requested information on aged receivables within a reasonable period of time.

Q. Do you have any concluding comments with regard to the Association's claims on collections?

A. Yes. I think it is important to emphasize that Aqua took the initiative on increasing efforts towards collections. Aqua approached the Association, and has implemented each of the collections mechanisms with which the Association agreed. Aqua has met with the Association routinely to inform it of Aqua's continuing efforts. I believe it is unfair for the Association to imply (entirely erroneously as discussed above) that Aqua has not been diligently pursuing all avenues available to resolve this problem.

C. <u>BULK BILLING OPTION</u>

Q. Mr. Hickey acknowledges that during the May 2003 meeting Aqua proposed bulk billing the Association, rather than individual customers, as one way to resolve the collections problem. (WA Ex. 1.00, p. 6; Ex. 1.01, p. 4). He alleges that of all the options Aqua presented, the Association expressed interest in bulk billing. Please respond.

A. I do not believe Mr. Hickey's representation is accurate. The Association has never indicated to Aqua that it was willing to accept this responsibility. The Association

indicated that the option would be presented to its Board of Directors but never indicated that the option was something it would implement. At best, the Association indicated the option was something it would "consider" but has rejected numerous times in the past. In fact, even in its recent response to the Company's data request 1.11, the Association admits that its "interest" in this option "requires further study."

Q. Is there documentary support for your belief?

A. Yes. Two of the exhibits Mr. Hickey attached to his direct testimony fully support my recollection of the events. First, page 1 of Exhibit WA 1.02 is a letter from myself to Ms. Becky Whelhel of the Association dated March 8, 2004, approximately ten months after my May 2003 meeting with the Association when I presented the bulk billing option. In my letter, I again ask the Association whether it will even consider the bulk billing option. If the Association had already told me it wanted to consider the option, there would have been no need for me to ask again. Second, pages 2 and 3 of the same Exhibit WA 1.02 is a letter from Ms. Karen Roche of the Association to myself dated April 15, 2004. She states that my March 8, 2004 letter was forwarded to her for response. With regard to the bulk billing option, she states:

> Finally, you have asked if the Association would consider allowing Aqua Illinois, Inc., to bill all Woodhaven Accounts to the Association. The Board is carefully evaluating this request with Counsel. At this time we are not prepared to respond with a definite answer; further analysis is currently being conducted. Once we have concluded our study we will advise you of our position.

These letters demonstrate that as of April 15, 2004, the Association had not expressed any interest to Aqua in implementing the bulk billing option.

Q. The Association asserts that Aqua has been unresponsive in providing information related to the bulk billing option. Please respond.

A. As I discussed, the Association never gave Aqua any indication it was interested in moving forward with the option. Aqua was not going to spend time and resources preparing information on a bulk billing option without the Association doing so. Aqua's resources are stretched thin as it is. Further, it has only been with Aqua filing its rate application that the Association has sought to advance the issue. Aqua would be happy to work with the Association on the issue if it is truly interested. However, since the more recent time when the Association asked Aqua for further information on the option, Aqua has not had the resources available to fully prepare an analysis of how the bulk billing would work, including addressing how the option would affect the other areas of Aqua's operation. Aqua has not intended to be uncooperative, it simply has not had the resources to pursue this option to its end because of other scheduled and pending matters.

Q. Mr. Hickey claims you met with the executive director and general manager of the Association in February 2005, and told them that Aqua "had no intentions of negotiating with [the Association] on the bulk billing issue and that [the Association] would have to request this information through the ICC rate filing process." Is this true?

A. No. I said I did not have the information to give to the association at this time and that the Company is working on the request. I stated that the Association could make the request through the rate process if it wishes but that the Company does plan on supplying the information when it becomes available.

Q. In your opinion, has Aqua failed to aggressively pursue collections simply because it has not been able to provide the Association with a proposal for implementing the bulk billing option now that the Association has requested one?

A. No. I believe that Aqua has pursued every reasonable option available. The bulk billing option was only one of several the Company proposed. As I discussed above, Aqua has pursued every other option with which the Association has agreed, including letters, liens, shut off valves, foreclosures, accepting property, etc. Again, I feel that the Association is unfair to imply that Aqua has not diligently pursued all collection mechanisms simply because Aqua has not been able to prepare a complete bulk billing proposal once the Association requested one. Certainly, Aqua never intended to forestall efforts towards a bulk billing option or Aqua would never have presented it to the Association as an option during the parties May 2003 meeting.

Q. Do you believe that a bulk billing option would be a good resolution of the collections problem in the Woodhaven area?

A. It is possible that it could be. However, a bulk billing option has other operating implications. It must be implemented in a manner that would not negatively impact customers in Aqua's other Divisions. I do not say this to avoid discussing the option. I intend only to emphasize that the option would need to be fair to all customers.

Q. Is customer allocations one of the issues related to a bulk billing option that would need to be implemented with fairness to customers in all Divisions?

A. Yes.

D. CUSTOMER ALLOCATIONS

Q. Does Aqua treat water and wastewater customers separately for allocation purposes?

A. Yes.

Q. Would you please explain why?

A. Yes. While the same customer may take both water and wastewater services, the services are separate. Aqua's water and wastewater Woodhaven Divisions are separate rate entities. Each Division has its own cost of service. Operations, capital planning, maintenance, accounts payable, financial statements, etc. are all separate. In addition, Aqua provides independent customer support to each water and each wastewater customer. Therefore, support staff and allocations are based on the number of customers for each Division. This method of allocation has been approved by the Commission in past cases in treating water and wastewater customers as the unique and separate customers that they are.

Q. Is there any aspect of service that is combined for a Woodhaven customer that takes both water and wastewater service?

A. Yes. Solely for the ease of the customer, a customer that takes both services has a combined bill.

Q. Mr. Hickey speculates that Aqua allocates by customer count for each Division rather than on a combined basis in order to inflate allocation percentages to the Association. (WA Exhibit 1.00, p. 14). Is this true?

A. No. Aqua allocates by each Division's customer count for the reasons I stated above. Indeed, Aqua has no incentive to allocate more to the Woodhaven Divisions than is fair and reasonable because of the Divisions' high uncollectible rate. Aqua does not want to increase its cost allocation to customers from whom it has serious problems collecting payment.

Q. Mr. Hickey also claims that Aqua has made exceptions for other associations with similar customer types. (WA Exhibit 1.00, pp. 13-14). If this is true, why will Aqua not make a similar exception for Woodhaven?

A. Aqua has implemented reduced customer allocations of 1/3 for availability customers in two service areas. These reduced allocations are appropriate because the availability customers are not connected to the system and do not receive service. They only pay an availability fee for owning the lot and being able to obtain water service if and when they do tap onto the system. Therefore, they do not cause any engineering, customer service, operations or maintenance issues or costs to be incurred. The situation is not the same with Association customers. While some Association customers choose not to take service, all of them are connected to Aqua's system. The Company is obligated to provide quality service to each and every one. Each Association customer connected to a Company main calling with a service question, concern or request receives a prompt response. Accordingly, all Association customers cause costs to be incurred.

Q. Is Aqua willing to discuss a reduced allocation in relation to a bulk billing option?

A. Yes. Because a bulk billing option would reduce some customer service aspects for Aqua to provide service, it would be willing to consider a reduced customer allocation in conjunction with bulk billing. However, as I stated before, any modification would need

to be fair to customers in all Aqua Divisions. This means that the reduction in allocation would have to be tied to the reduction in services and costs that result from the bulk billing option. Otherwise, customers in other Aqua Divisions will receive increased allocations without any basis.

E. <u>CONTRACTUAL SERVICES</u>

Q. The Association claims that Aqua has not substantiated increases in contractual services since 2002. Mr. Hickey states this is so because Aqua has applied its current allocation methodology since 2002. (WA Exhibit 1.00, p. 15). Please respond.

A. Mr. Hickey has misinterpreted and taken one of Aqua's data request responses out of context. As a result, Mr. Hickey misrepresents the facts.

Q. Please explain.

A. Contrary to Mr. Hickey's representations, Aqua informed the Association that, while the basis for the prior rate proceedings' allocations is not readily available, Aqua was able to determine that rate base percentage was the basis for allocating at least some of the prior years' contractual services expenses. Aqua's current methodology is to allocate by customer count.

Q. Is the current allocation methodology that Aqua is using appropriate?

A. Yes. The utilization of a customer count methodology is viewed as more appropriate for these costs because the more customers a water or wastewater system has the more issues arise that require more customer support functions to be dedicated to the customer from customer service, engineering, accounting, operations, maintenance, planning, forecasts,

budgets, etc. Accordingly, customer count is a very acceptable way of allocating these costs, and has been accepted in past proceedings. Added benefits are that it is consistent with parent company approach, and it is simple and easy to administrate.

Q. Did Aqua change its methodology in order to improperly increase allocations to the Association?

A. No. Aqua is currently utilizing a customer count allocation methodology for the reasons I stated in response to the previous question. The methodology is reasonable and fair to all service Divisions.

F. <u>CAPITAL INVESTMENTS</u>

Q. The Association questions Aqua's inclusion of a 1998 sewer main extension and lift station project, claiming that the Association paid for 90% of the project but that its contribution has not been removed from capital investment. (WA Exhibit 1.00, p. 15). Please respond.

A. The Association is incorrect. The Company properly accounted for the Association's contribution toward the referenced sewer main extension and lift station project. In particular, the Company did not include the Association's contribution in capital investment. Rather, the contribution is reflected as a reduction to rate base via its inclusion in customer advances on Company Schedule B-1. Aqua also informed the parties that the Association's contribution had been included in customer advances on April 19, 2005, as part of the Company's supplemental response to Staff data request BCJ 4.05.

Q. Mr. Hickey also alleges that Aqua has identified new sewer services as capital additions but that the property owners pay 100%. Is this true?

A. No. The customers do not pay 100% of these costs. To explain, the Company charges a customer a set amount to extend sewer lines. The customer is responsible for the main from the existing location to the location in front of their property. The Company is responsible for the sewer line from the main to the property line. The customer is then responsible for the sewer main from the property line to their campsite or trailer. The Company engineers the total extension (both customer and Company portion), does the field work, estimates the cost of the project and prepares the plans for the entire project. The Company then charges a fixed amount per foot for the extension. This fixed amount is then collected from the customer for the extension. Once collected, the Company purchases the materials, sends in the IEPA permits, and either hires a contractor or installs with Company employees depending upon the work load and the time of year. All costs are collected in the project. The customer collected amount is the contribution toward the project and the balance that the Company paid (difference from per foot cost collected and actual cost incurred) is the Company portion of the project. Because the project is actually three projects in one, it would be very difficult, extremely costly, and very subjective to try and assign direct costs to each of the three portions of the project. Therefore, the Company charges the fixed per foot charge and the amount that the project is over that amount is the cost of the Company's portion for the sewer main from the main to the property line. Only the Company's portion of the costs has been included in capital additions.

G. DEPRECIATION

Q. The Association argues that the depreciation expense Aqua is requesting is unreasonably high because it is "almost 6% of the rate base capital requested for consideration." (WA Exhibit 1.00, p. 16). Please respond.

A. Mr. Hickey's analysis is erroneous. Depreciation is not a function of rate base. The Association admitted to this error in response to the Company's data request 1.23. The Association's response stated:

> An assumption was made that the allowable depreciation in a rate case is based on the allowable rate base value. Subsequent investigations have provided information that this is not the case and that depreciation is based on total plant assets.

Q. Mr. Hickey also claims that the Commission allowed an allocation of $131,114 in 2000, and that Aqua's actual depreciation has never met and has been as much as 66% below this amount. (WA Exhibit 1.00, p. 16). How do you respond?

A. Mr. Hickey's analysis relies on some erroneous numbers. First, the $131,114 amount Mr. Hickey references from the 2000 case is erroneous. Aqua's requested depreciation from that case was $113,438. (Aqua Ex. 13.0, Sch. C-2.4 in Dkt. 00-0338). Second, the 2004 depreciation numbers Mr. Hickey utilizes were budgeted numbers rather than actual. 2004 actual Water and Sewer depreciation expense was actually higher at $123,308 and $77,139, respectively. In addition, as I discussed below, the Company anticipates increased depreciation in the future due increases in depreciable plant.

Q. Does the Company have an explanation for the increase in depreciation from 2004 to 2005 that Mr. Hickey identifies? (WA Exhibit 1.00, p. 16).

A. 2005 Woodhaven Water depreciation reflected on Schedule C-2.4 is higher than actual depreciation expense recorded from 2000 to 2004 due to higher depreciable plant and equipment. 2005 Woodhaven Sewer depreciation reflected on Schedule C-2.4 is higher than actual depreciation expense recorded from 2000 to 2004 due to higher depreciable plant and equipment as well as proposed higher depreciation rates. The depreciation rates Aqua has proposed have been addressed by Staff and are discussed in Mr. Schreyer's rebuttal testimony.

H. INCREASE IN WASTEWATER RATES

Q. The Association claims that, following the 2000 rate case for the water Division, Aqua increased wastewater rates in accordance to their 130% allocation to water rates. (WA Exhibit 1.00, pp. 16-17). Please respond.

A. The Company is still assessing this allegation. A response will be provided when this review is completed.

I. ALLEGATIONS PERTAINING TO AQUA'S CORPORATE PARENT

Q. Mr. Hickey alleges that Aqua's corporate parent is an entity reaping profits at the expense of the Woodhaven operating Divisions. (WA Exhibit 1.00, pp. 17-20). Please respond.

A. The Association has absolutely no grounds for making such a slanderous accusation of wrong-doing. It has presented no evidence that any of the Division's operating company profits are being allocated improperly to Aqua's corporate parent. Mr. Hickey has simply taken some innocent comments entirely out-of-context and made misleading implications. I believe the Association's underlying assertions for this aspect of Mr.

Hickey's testimony are highly inappropriate. It simply has no grounds for advancing them.

Q. Do you have further comments on this issue?

A. Yes. Mr. Hickey makes the further statement that Aqua's corporate parent tells its shareholders that infrastructure improvements will be 2-3% annually, but Aqua says in this case that 60% is needed for improvements. (WA Exhibit 1.00, p. 20). Mr. Hickey's implied accusation is that Aqua has fabricated evidence for this rate application – another highly slanderous accusation of wrong-doing for which the Association has absolutely no grounds. As I discussed earlier, Aqua has submitted an extensive rate application and provided both Staff and the Association with enormous amounts of information in support of the request. The capital improvements for the Division are fully supported by this information. In contrast, parent company projections would be based on all of the numerous Aqua operating companies across a large number of states – they simply would not be indicative of facts in relation to Aqua's Woodhaven Divisions.

Q. Any further comments?

A. Yes. Without trying to belabor the point, I will simply mention that one cannot take a comment pertaining to Aqua's corporate parent and expect it to fit every operating company. There are many Aqua operating companies across a large number of states. One size simply does not fit all. A statement of generality from Aqua's corporate parent simply has no probative value in relation to Aqua's pending rate application. This case needs to be assessed based on the information provided to support it alone, not by jumping to unsupported and incorrect conclusions based on any statement pertaining to

Aqua's corporate parent, all of the Aqua operating companies generally or some other Aqua operating company in another state.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.