

**AQUA ILLINOIS, INC.
DIRECT TESTIMONY
OF
TERRY J. RAKOCY**

(Docket 06-0192)

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26 treatment, and distribution; plus experience in wastewater collection and treatment. The
27 experience has included seven years of operation responsibilities as Chief Engineer of the
28 63,000-customer City of Youngstown, Ohio municipal water system; Project Manager for
29 a 3.0 MGD water treatment plant expansion; Assistant Division Manager and Division
30 Manager for the 25,000-customer Consumers Ohio Water Company, Massillon Division;
31 President of the 8,000-customer Consumers New Hampshire Water Company; and
32 currently President of Aqua Illinois, Inc., Aqua Indiana, Inc. and Aqua Missouri, Inc.
33 which together serve 100,000 customers.

34 **Q 5. What are your duties as President of Aqua?**

35 A. I am responsible for the overall leadership, management and operations of Aqua, which
36 serves approximately 58,000 water customers and 10,800 wastewater customers in the
37 State of Illinois. I have direct responsibility for planning, organizing and staffing. I,
38 along with the other officers of the Company, have responsibility for customer
39 satisfaction and public relations including local and state government officials, and news
40 media. I am responsible for the financial performance of the Company, including
41 business plan development. In addition, I am responsible for marketing, legislative
42 relations, regulatory relations and parent company relations.

43 **PURPOSE OF TESTIMONY**

44 **Q 6. Mr. Rakocy, what is the purpose of your testimony?**

45 A. The purpose of my testimony is to discuss reconciliation data submitted by Aqua on
46 March 15, 2006, with respect to operation during the calendar year 2005 of the
47 Qualifying Infrastructure Plant ("QIP") Riders ("QIP Riders") in effect for Aqua's

48 Kankakee, Vermilion and Woodhaven-Water rate areas ("QIP Rate Areas" or "Rate
49 Areas").

50 **RECONCILIATION**

51 **Q 7. Please describe Aqua.**

52 A. Aqua provides water and sewer public utility service in certain areas of Kankakee,
53 Vermilion, Will, Boone, Knox, Lake, Champaign and Lee Counties in the State of
54 Illinois. Aqua is a public utility within the meaning of the Illinois Public Utilities Act
55 (the "Act"), 220 ILCS 5/3-105.

56 **Q 8. Did Aqua have QIP Riders in effect during calendar year 2005?**

57 A. Yes. On January 1, 2005, pursuant to the terms of the QIP Rider and Part 656 of the
58 Illinois Administrative Code (83 Ill. Adm. Code, Part 656), Aqua placed into effect for
59 each QIP Rate Area the QIP Surcharge Percentages specified in the Information Sheet
60 filed in accordance with the terms of the QIP Rider for each Rate Area. For the
61 Kankakee, Vermilion and Woodhaven-Water Rate Areas, the 2005 QIP Surcharge
62 Percentages were 2.51%, -0.10% and 0.05%, respectively. In accordance with the
63 reconciliation filing made on March 15, 2005 under section 656.80, 83 Ill. Adm.
64 Code 656.80, revised QIP Surcharge Percentages of 2.23%, -0.74% and -0.14% became
65 effective on April 1, 2005 for the Kankakee, Vermilion and Woodhaven-Water Rate
66 Areas, respectively.

67 **Q 9. Did the Commission require any adjustments to the 2005 QIP Surcharge
68 Percentages?**

69 A. Yes. In Docket 05-0179, the Commission required Aqua to implement an "O" factor
70 adjustment reflecting refund of an over-recovery for the Vermilion QIP Rate Area. Due

71 to the small amount of the "O" factor, the Commission ordered that the "O" factor refund
72 should take place over a three-month period, with interest calculated pursuant to Illinois
73 Administrative Code, Sections 656.80(i) and 280.70(e)(1), commencing on the effective
74 date of the Surcharge Percentage specified in the Company's subsequent Information
75 Sheet filing. The "O" factor adjustment was implemented through a QIP Surcharge
76 Percentage specified in the Information Sheet for the Vermilion QIP Rate Area that
77 became effective on January 1, 2006. The "O" factor for the Vermilion QIP Rate Area
78 was in effect for a three month period ending March 31, 2006. The Information Sheets
79 filed on April 1, 2006 terminated the "O" factor for the Vermilion QIP Rate Area and
80 implemented the "R" factors for the Kankakee, Vermilion and Woodhaven-Water Rate
81 Areas as specified in the documents attached to this testimony and marked as Aqua
82 Exhibits A, B and C.

83 **Q 10. Is there a requirement that Aqua file reconciliation data with respect to the**
84 **operation of the QIP Riders during 2005?**

85 A. Yes. Section 9-220.2 of the Act, 220 ILCS 5/9-220.2 and 83 Illinois Administrative
86 Code Section 656.80(a) require that an annual reconciliation regarding operation of a QIP
87 Rider be filed with the Commission on or before March 15 of the calendar year following
88 a year in which the QIP Rider was in effect.

89 **Q 11. Did Aqua file reconciliation data as required?**

90 A. Yes. In accordance with Section 9-220.2 and Section 656.80(a), Aqua timely filed a
91 Petition and an annual reconciliation for each QIP Rate Area on March 15, 2006. My
92 testimony addresses the reconciliations submitted on that date.

93 **Q 12. Please describe Aqua Exhibits A, B and C.**

94 A. Aqua Exhibits A, B and C contain the 2005 reconciliation for the Kankakee, Vermilion
95 and Woodhaven-Water Rate Areas, respectively. (There were no QIP projects in
96 Vermilion and Woodhaven in 2005. As a result, Schedules (f)(1), (h)(2) and (h)(5) of
97 Exhibits B and C contain no data. The R-factor calculations for Vermilion and
98 Woodhaven reconcile QIP revenue in 2005 with the R and O factor adjustments
99 implemented, as applicable, for those Rate Areas in 2005). For each respective Rate
100 Area, Exhibits A, B and C include information required by Section 656.80(f) and
101 Section 656.80(h)(1), (2), (4) and (5) of the Commission's Rules.

102 As required by Sections 656.80(a), 656.80(f)(3) and 656.80(h)(4) of the Rules,
103 each of Exhibits A, B and C: (a) is verified by an officer of the Company; and
104 (b) includes a calculation of the "R" component necessary to adjust actual revenue
105 collected under the QIP Rider for the applicable QIP Rate Area to an amount equivalent
106 to the actual level of prudently-incurred QIP cost for the reconciliation year, 2005. Also,
107 as required by Section 656.80(h)(2) and (h)(5), the Exhibits include: (1) a detailed
108 summary of all invoices supporting costs for eligible QIP Projects; and (2) information
109 supporting the prudence of the investment in QIP. Finally, as required by
110 Sections 656.80(c) and 656.80(f)(4) of the Rules, Aqua Exhibits A, B and C include, for
111 each respective Rate Area, Schedules showing a calculation of actual operating income
112 and average rate base for calendar year 2005.

113 **Q 13. Did Aqua realize a rate of return above the level allowed in the last water rate case**
114 **for any QIP Rate Area?**

115 A. No. As the Schedules required by Section 656.80(c) and 656.80(f)(4) show, the actual
116 rate of return on rate base for each Rate Area was below the overall rate of return allowed
117 in Aqua's last water rate case.

118 **Q 14. Were the QIP-related costs for each QIP Rate Area prudently incurred?**

119 A. Yes. Information regarding the prudence of QIP-related cost incurred during 2005 is
120 provided for each respective Rate Area in Schedule (h)(5) of Aqua Exhibits A, B and C.

121 **Q 15. Do Aqua Exhibits A, B and C show calculation of the "R" factor of the QIP Riders**
122 **for the Kankakee, Vermilion and Woodhaven-Water Rate Areas?**

123 A. Yes. In each Exhibit, Schedule (f)(1) shows a calculation of the 2005 actual QIP-related
124 Cost, and Schedule (f)(2) shows the level of actual QIP Revenue realized during 2005.
125 Schedules (f)(3) and (h)(4) show a calculation of the "R" factor for each QIP Rate Area.
126 As Exhibits A, B and C show, the "R" factors of the QIP Riders for the Kankakee,
127 Vermilion and Woodhaven-Water Rate Areas, respectively, are (\$11,846.25), \$9,097.03,
128 and \$319.59. For the Kankakee Rate Area, this reflects an over-recovery to be refunded
129 to customers, while for the Vermilion and Woodhaven-Water Rate Areas, this reflects an
130 under-recovery to be collected from customers. The parentheticals denote negative
131 values.

132 **Q 16. Do the Commission rules require that any other information be submitted with the**
133 **annual reconciliation filing?**

134 A. Yes. Section 656.80(h) of the Commission rules requires that certain information be
135 provided to the Commission's Manager of the Water Department and Manager of
136 Accounting. This information has been provided or made available to these respective
137 Managers.

138 **Q 17. Has Aqua filed Information Sheets revising the QIP Surcharge Percentage to reflect**
139 **the "R" factors calculated for 2005?**

140 A. Yes. As required by Sections 656.70(a) and 656.80(a) of the Rules, Aqua filed
141 Information Sheets for each respective QIP Rate Area that reflect revised calculations of
142 the QIP Surcharge Percentages. The revised calculations reflect for each QIP Rate Area
143 the "R" component identified above for that Rate Area. The revised QIP Surcharge
144 Percentages took effect on April 1, 2006. The Surcharge Percentages set forth in the
145 April 1, 2006 Information Sheets differ from the Surcharge Percentages effective for the
146 three QIP Rate Areas on January 1, 2006 in that for the Kankakee and Woodhaven Rate
147 Areas, the Information Sheets implement the "R" component, respectively refunding an
148 over-recovery to customers and collecting an under-recovery from customers, and for the
149 Vermilion Rate Area, the "O" factor is now zero and the "R" component is implemented
150 collecting an under-recovery from customers.

151 **Q 18. Is an adjustment under the "O" component of the QIP Rider required in connection**
152 **with the 2005 Reconciliation?**

153 A. No. As indicated by the Commission's Rules, an adjustment is needed in the event that
154 actual QIP Rider Revenue for the year differs from the actual amount of prudently

155 incurred QIP cost for the year; or if for a QIP Rate Area, the Company realizes a rate of
156 return on rate base that exceeds the allowed rate of return for the last rate case. As a
157 result of implementation of the "R" component on April 1, 2006, the amount of revenue
158 collected under the QIP Riders will be adjusted over the nine-month period ended
159 December 31, 2006, to an amount equal to the actual level of prudently-incurred QIP cost
160 for the reconciliation year, 2005. Furthermore, as explained above, Aqua did not realize
161 a rate of return on rate base above the allowed rate of return in any QIPS Rate Area.

162 As Sections 656.80(b) and 656.80(c) of the Rules indicate, the Commission
163 should require that an adjustment be made under the "O" component of the QIP Rider
164 only if the needed adjustment(s) has not already been made under the "R" component.
165 As indicated above, the adjustment needed for each QIP Rate Area to result in an amount
166 of actual QIP Rider revenue for the reconciliation year that equals the actual amount of
167 prudently-incurred QIP cost was reflected in the "R" component used in calculating the
168 QIP Surcharge Percentages for the QIP Riders that became effective on April 1, 2006.
169 Accordingly, no adjustment should be required under the "O" component of the QIP
170 Rider for any of the QIP Rate Areas.

171 **Q 19. Does this conclude your Direct Testimony?**

172 A. Yes, it does.