

AQUA ILLINOIS, INC.
DIRECT TESTIMONY
OF
TERRY J. RAKOCY
(DOCKET 06-0655)

25 years of operation responsibilities as Chief Engineer of the 63,000 customer City of
26 Youngstown, Ohio municipal water system; Project Manager for a 3.0 MGD water
27 treatment plant expansion; Assistant Division Manager and Division Manager for the
28 25,000 customer Consumers Ohio Water Company, Massillon Division; President of the
29 8,000 customer Consumers New Hampshire Water Company; and currently President of
30 Aqua Illinois, Inc., Aqua Indiana, Inc., and Aqua Missouri, Inc.

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

32 A. I am responsible for the overall leadership, management and operations of Aqua, which
33 serves approximately 57,900 water customers and 10,900 wastewater customers in the
34 State of Illinois. I have direct responsibility for planning, organizing and staffing. I,
35 along with the other officers of the Company, have responsibility for customer
36 satisfaction and public relations including local and state government officials, and news
37 media. I am responsible for the financial performance of the Company, including
38 business plan development. In addition, I am responsible for marketing, legislative
39 relations, regulatory relations and parent company relations.

40 **PURPOSE OF TESTIMONY**

41 **Q 6. What is the purpose of your testimony?**

42 A. Aqua has filed a Petition seeking a Certificate of Public Convenience and Necessity
43 (“Certificate”) which authorizes Aqua to construct, operate and maintain a water
44 distribution system and a wastewater collection system, and in connection therewith,
45 transact a public utility business in an area of Will County, Illinois (the “Expanded
46 Area”), which is contiguous to the area (the “Original Certificated Area”) for which the
47 Company, then Consumers Illinois Water Company (“CIWC”), was granted Certificates
48 of Public Convenience and Necessity in Docket Nos. 84-0116, 88-0060, 94-0461 and 98-

49 0340. Aqua also requests a variance from the main extension deposit provisions of
50 Aqua’s Rules, Regulations and Conditions of Service (“Rules and Regulations”) to
51 expand system development charges (“SDCs”) approved by the Commission in its Order
52 dated October 8, 2003 in Docket 03-0379 (“Docket 03-0379 Order”). I will address
53 various regulatory aspects of the Petition, including matters relating to the area to be
54 served, the required facilities, the calculation of SDCs, and the requested approvals for
55 accounting entries, depreciation rates and rates for water and sewer service.

56 **BACKGROUND**

57 **Q 7. Please describe Aqua.**

58 A. Aqua provides water and sewer public utility service in certain areas of Will, Kankakee,
59 Vermillion, Boone, Knox, Lake, Champaign and Lee Counties in the State of Illinois.
60 Aqua is a public utility within the meaning of the Illinois Public Utilities Act. 220 ILCS
61 5/3-105.

62 **Q 8. Please describe the Original Certificated Area.**

63 A. The Original Certificated Area is located in Green Garden Township in Will County,
64 Illinois, adjacent to the Village of University Park. In Docket Nos. 84-0116, 88-0060,
65 94-0461 and 98-0340, the Commission granted Certificates of Public Convenience and
66 Necessity to Aqua (then CWIC) to provide water and sewer service to the Original
67 Certificated Area. The Original Certificated Area is shown in the attached Exhibit A.

68 **Q 9. Please describe the Expanded Area.**

69 A. The Expanded Area is located in Will County, Illinois in portions of Green Garden
70 Township and Monee Township. The Expanded Area consists of approximately 6,400

71 acres of land, portions of which are planned for development as the following
72 subdivisions: (i) MCZ; (ii) Westbury Phase I; (iii) Westbury Phase II; (iv) Ted
73 Development; (v) Veridian; (vi) Shafer Parcel; (vii) Mill Creek Development; (viii) Belle
74 Meade; (ix) Hidden Lake; and (x) George Street (collectively, the “Developments”).
75 The Expanded Area is shown on the attached Exhibit A. The locations of the
76 Developments are shown on the attached Exhibit B, and legally described on attached
77 Exhibit C. As shown in Exhibit A, the Expanded Area is contiguous with the Original
78 Certificated Area.

79 **Q 10. Please describe the Original SDC Area.**

80 A. The Original SDC Area is comprised of an approximately six square mile portion of the
81 Original Certificated Area. The boundaries of the Original SDC Area are shown on
82 Exhibit B.

83 **Q 11. What are SDCs?**

84 A. SDCs are charges paid by developers in lieu of deposits required by Aqua’s standard
85 Rules and Regulations. In Docket No. 03-0379, the Commission approved separate SDCs
86 for water service and sewer service. The current SDCs applicable in the Original SDC
87 Area is \$6,127.17 per lot (combined water and sewer), which is payable by applicants
88 over time as new mains cross the applicant’s lots. Under the SDCs, Aqua recovers as
89 contributions the actual cost of construction of the water and sewer mains constructed to
90 serve the Original SDC Area, less 1 ½ times the Original Prospective Customer Revenue
91 from water and sewer customers, respectively. Under the SDC approach as approved in
92 Docket 03-0379, the amount ultimately included in rate base in connection with the
93 original water and sewer mains (the “Manhattan Monee Mains,” as further described

94 below) is consistent with the main extension cost recovery provisions of Aqua's Standard
95 Main Extension Rules.

96 **Q 12. Why did Aqua implement SDCs in the Original SDC Area?**

97 A. At the time of the filing of the petition in Docket 03-0379, five developers had plans to
98 construct a total of 500 homes in the Original SDC Area. In the Docket 03-0379 Order,
99 the Commission recognized that development of the Original SDC Area was being
100 delayed because, under Aqua's Rules and Regulations, a developer must deposit the cost
101 of a main extension, in excess of 1 ½ times the Original Prospective Customer Revenue
102 (as defined in the Rules and Regulations), to extend water and sewer mains to a proposed
103 development. Subsequent developers (that do not own property abutting the original
104 main) could benefit from the main extension, but would not have to bear any of the initial
105 cost, thus gaining an unfair advantage over the original developer. Because of the
106 magnitude of deposits required under Aqua's Rules and Regulations, none of the
107 developers was willing to take action.

108 **Q 13. Did the SDCs spur development in the Original SDC Area?**

109 A. Yes. The implementation of SDCs solved the problem I described above by ensuring that
110 each developer in the Original SDC Area paid only its appropriate share for facilities
111 required to serve them. Since the implementation of SDCs, approximately 24 residential
112 units have been constructed and occupied in one subdivision with 68 residential lots in
113 the Original SDC Area, and there are three (3) additional subdivisions currently under
114 construction that represent 168 residential units.

115 **Q 14. Did Aqua construct facilities to serve the Original SDC Area?**

116 A. Yes. Aqua is completing construction on a 16-inch water main, 16 fire hydrants, and
117 miscellaneous valves and fittings (“Water Main”) along Manhattan-Monee Road for three
118 miles west of its existing facilities. Along the same route, Aqua is completing
119 construction on two lift stations and gravity sewers and force mains (“Sewer Main”).
120 The Water Main and Sewer Main are referred to collectively as the “Manhattan-Monee
121 Mains.” The Water Main is projected to cost \$1,413,977. The Sewer Main is projected
122 to cost \$2,066,650. The combined total cost of the Manhattan Monee Mains is projected
123 to be \$3,480,627.

124 **Q 15. Why does Aqua propose to expand SDCs beyond the Original SDC Area?**

125 A. The purpose of implementing SDCs in the Original SDC Area was to recover the cost of
126 the Manhattan Monee Mains from the developers that benefited from these mains. In
127 order to receive service from Aqua in certain portions of the Expanded Area (“Expanded
128 SDC Area”), the developers in this area will construct water and sewer mains from the
129 existing Manhattan-Monee Mains (“Extension Mains”). Extension of the SDCs to the
130 Expanded SDC Area is intended to ensure that developers in the Expanded SDC Area
131 pay an appropriate share of the cost of the Manhattan-Monee Mains, which provide a
132 benefit to these developers.

133 **Q 16. Please describe the Expanded SDC Area.**

134 A. The Expanded SDC Area consists of that portion of the Expanded Area where the
135 following Developments are located: (i) MCZ Development; (ii) Westbury Phase I; (iii)
136 Westbury Phase II; (iv) Ted Development; (v) Veridian; (vi) Shafer Parcel; (vii) Mill
137 Creek Development; (viii) Belle Meade; and (ix) George Street. As shown on Exhibit B,

138 these developments are located West and South of the Original Certificated Area. The
139 Hidden Lake Development is located North of the Original Certificated Area. The
140 Hidden Lake Development is included in the Expanded Area but is not part of the
141 Expanded SDC Area.

142 **Q 17. How does Aqua propose to recover the costs of the Extension Mains?**

143 A. The Extension Mains will be constructed pursuant to Aqua’s Rules, Regulations and
144 Conditions of Service (Water), Section 29 (ILL. C.C. No. 47, Sec. 1, Original Sheet Nos.
145 32-33), and Aqua’s Rules, Regulations and Conditions of Service (Sewer), Section XI
146 (ILL. C. C. No. 48, Sec. 1, Original Sheet Nos. 28-30), regarding main extensions
147 (“Standard Main Extension Rules”). In accordance with the Standard Main Extension
148 Rules (unless an alternate arrangement is approved by the Commission), the cost of the
149 Extension Mains will be paid by applicants for the extensions, and Aqua will pay the
150 applicants 1 ½ times estimated annual revenue from the Original Prospective Customers
151 (as defined in the Standard Main Extension Rules) at the time title to the Extension Mains
152 is transferred.

153 **CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY**

154 **Q 18. Has Aqua been requested to provide service in the Expanded Area?**

155 A. Yes. The developers in the Expanded Area have requested that Aqua extend service from
156 the Manhattan Monee Mains that serve the Original SDC Area. At present, there is no
157 public water or sewer service provided in the Expanded Area.

158 **Q 19. Are there other entities besides Aqua that could provide the necessary public water**
159 **and sewer service?**

160 A. No. There is no municipal corporation or other entity willing or able to provide water or
161 sewer service to the Expanded Area. As required by 83 Illinois Administrative Code
162 § 200.150(b), Aqua has served a copy of this Petition on each municipality located partly
163 or wholly within the Expanded Area, or with a corporate boundary that is within one and
164 one-half miles of the Expanded Area. Aqua's notice of service of the Petition is on file
165 with the Commission.

166 **Q 20. Will occupants of the Expanded Area require water and sewer service?**

167 A. Yes, as noted above, the developers in the Expanded Area intend to construct a total of
168 approximately 1060 residential units in the Expanded Area. The occupants of these
169 residential units will require public water and sewer service. It is anticipated that some of
170 the residential units will take service from Aqua and some will take service from an
171 onsite water well and wastewater treatment systems.

172 **Q 21. Please discuss the Certificate that Aqua seeks in this proceeding.**

173 A. Aqua seeks a Certificate authorizing it to provide public water service and sewer service
174 in the Expanded Area, which is contiguous to the Original Certificated Area. In Docket
175 Nos. 84-0116, 88-0060, 94-0461 and 98-0340, the Commission granted Certificates of
176 Public Convenience and Necessity to Aqua (then CWIC) to provide water and sewer
177 service to the Original Certificated Area.

178 **Q 22. Is construction of the proposed Extension Mains necessary to provide adequate,**
179 **reliable and efficient water service and sewer service to customers in the Expanded**
180 **Area?**

181 A. Yes. Construction of the proposed Extension Mains is necessary to provide adequate,
182 reliable and efficient water service for customers within the Expanded Area. Aqua will
183 take steps to assure that the construction process and supervision thereof will be adequate
184 and efficient, and that the cost it will incur for these facilities is the least-cost means of
185 providing the required water and sewer service.

186 **Q 23. Please discuss Aqua’s ability to provide the necessary water and sewer service.**

187 A. Aqua has the technical, financial and managerial ability to construct, operate and
188 maintain a public water distribution system and sewer collection system for the Expanded
189 Area, without adverse financial consequences for existing customers. The provision of
190 public water and sewer service will impose no financial burden on either Aqua or its
191 existing customers. Also, existing customers would experience benefits from growth of
192 the Aqua system as common costs are spread over a larger customer base.

193 **Q 24. What rates does Aqua propose to charge for the Expanded Area?**

194 A. In the Original Certificated Area, Aqua currently charges for water service and
195 wastewater service the rates set forth in the tariffs of the University Park Division (as
196 now in effect or as such rates may be subsequently modified by Order of the
197 Commission). (Ill. C.C. No. 47, Section No. 4, Sheet Nos. 1-21 (water service); and Ill.
198 C.C. No. 48, Section No. 3, Sheet Nos. 1-10 (wastewater service)). Aqua proposes to
199 apply these same rates throughout the Expanded Area. In addition, all other applicable
200 water and wastewater charges for the University Park Division would apply to service

201 within the Expanded Area, including, but not limited to, public and private fire protection
202 charges, returned check charges, late-payment fees and State and municipal add-on taxes
203 or fees.

204 **Q 25. What factors do you believe support Aqua’s proposed rates?**

205 A. As shown on the attached Exhibit D, if the proposed water rates and sewer service rates
206 are charged within the Expanded Area, the expected rates of return on the water and
207 sewer rate bases will be comparable to the rate of return on rate base allowed by the
208 Commission in Aqua’s last rate proceeding, Docket No. 97-0351 (water) and Docket No.
209 93-0253 (wastewater). The proposed rates are, therefore, not in excess of reasonable
210 rates.

211
212 **THE EXTENSION MAINS**

213 **Q 26. Please describe the Extension Mains.**

214 A. To receive water service from Aqua, developers will install appropriately-sized water
215 mains from the Manhattan-Monee Road Water Main to their respective developments.
216 The developers’ water mains will be a minimum size of 8-inch. The water mains may be
217 extended from the end of a water main extended by another developer and may not
218 necessarily connect directly to the Water Main on Manhattan-Monee Road. The cost to
219 construct water mains will be born by the developers. To provide sewer service,
220 developers will install appropriately sized sewer mains from the Manhattan-Monee Road
221 Sewer Main to their respective developments. The developers’ sewer mains may be
222 extended from the end of a sewer main extended by another developer and may not
223 necessarily connect directly to the Sewer Main on Manhattan-Monee Road. The cost to

224 construct sewer mains will be born by the developers. Title to each developer's water
225 mains and sewer mains will be transferred to Aqua upon completion of construction.

226 **Q 27. What rules will govern extension of the Extension Mains to the Expanded Area?**

227 A. The Extension Mains will be constructed pursuant to Aqua's Rules, Regulations and
228 Conditions of Service (Water), Section 29 (ILL. C.C. No. 47, Sec. 1, Original Sheet Nos.
229 32-33), and Aqua's Rules, Regulations and Conditions of Service (Sewer), Section XI
230 (ILL. C. C. No. 48, Sec. 1, Original Sheet Nos. 28-30), regarding main extensions
231 ("Standard Main Extension Rules"). In accordance with the Standard Main Extension
232 Rules (unless an alternate arrangement is approved by the Commission), the cost of the
233 Extension Mains will be paid by applicants for the extensions, and Aqua will pay the
234 applicants 1 ½ times estimated annual revenue from the Original Prospective Customers
235 (as defined in the Standard Main Extension Rules) at the time title to the Extension Mains
236 is transferred.

237 **Q 28. Does Aqua anticipate a need to acquire rights-of-way for the Extension Mains from**
238 **private landowners?**

239 A. At present, based on discussions with the design engineer, a need for acquisition of
240 rights-of-way from private landowners is not anticipated. If acquiring rights-of-way from
241 private landowners becomes necessary, Aqua will follow the provisions of Part 300 of the
242 Commission's rules (83 Ill. Admin. Code, Part 300).

243 **Q 29. Please explain the accounting for the Extension Mains.**

244 A. In accordance with Commission policy and the Uniform System of Accounts for Water
245 Utilities (83 Ill. Admin. Code, Part 605, Accounting Instruction 17), Aqua proposes to

246 record the original cost of all water and wastewater facilities for the Expanded Area in
247 the applicable Utility Plant In Service accounts (Account 300 - for water and sewer
248 service, separately). The Company proposes to record any contributions or deposits for
249 the Extension Mains as contributions in Account 271 – Contributions in Aid of
250 Construction. At the time title to the Extension Mains is transferred to Aqua, Aqua will
251 debit Account 271 in an amount representing its payment to the developer under the
252 Standard Main Extension Rules.

253 **Q 30. What depreciation rates will be in effect for the Expanded Area?**

254 A. For the Expanded Area, Aqua proposes to use the depreciation rates for the University
255 Park Division, as now in effect or as subsequently revised.

256 **VARIANCE REQUEST**

257 **Q 31. Why is Aqua requesting a variance?**

258 A. Under Aqua’s currently effective Rules and Regulations for water and sewer service, Ill.
259 C.C. Nos. 47 (Rule 28) and 48 (Rule XI), respectively, a developer must deposit the cost
260 of a main extension, in excess of 1½ times the Original Prospective Customer Revenue,
261 to extend water and sewer mains to a proposed development. Subsequent developers
262 (that do not own property abutting the original main) could benefit from the original main
263 extension, but not bear any of the initial cost, and thus would have an unfair advantage
264 over the first developer. Aqua is requesting a waiver of the standard Rules and
265 Regulations to extend SDCs to developers in the Expanded SDC Area, who also will
266 benefit from the Manhattan-Monee Mains.

267 **Q 32. What factors do you believe support Aqua's request for a variance?**

268 A. Extending the SDCs is consistent with the Docket 03-0379 Order, where the Commission
269 recognized that under Aqua's standard Rules and Regulations, subsequent developers
270 (that do not own property abutting the original main) could benefit from the original main
271 extension, but not bear any of the initial cost, and thus would have an unfair advantage
272 over the first developer. Extension of the SDCs is also consistent with the intent of the
273 Rules and Regulations, which is that applicants for service pay an appropriate share of
274 the costs of mains needed to serve them. Additionally, as explained below in the portion
275 of my testimony discussing calculation of the SDCs, expanding SDCs to the Expanded
276 Area will result in SDCs in an amount less than the SDCs approved in the Docket 03-
277 0379 Order. The formula approved in the Docket 03-0379 Order for calculation of SDCs
278 resulted in an SDC charge of \$6,127.17 per lot (combined water SDC and sewer SDC).
279 This charge was based on estimated construction costs for the Manhattan-Monee Mains.
280 The Docket 03-0379 Order provides for recalculation of the SDCs based on actual
281 construction costs. Aqua has determined that when it recalculates the current SDCs
282 based on actual construction costs, SDCs applicable only to the Original SDC Area
283 would increase to approximately \$8,072.51 (combined water SDC and sewer SDC). By
284 expanding SDCs to the Expanded SDC Area, the actual construction costs for the
285 Manhattan-Monee Mains will be spread over a larger base, resulting in a decreased SDC
286 amount (rather than an increase). And, if development of the Original SDC Area and the
287 Expanded SDC Area occurs more quickly than presently anticipated, expansion of the
288 SDCs may lead to the recovery of costs for the Manhattan-Monee Mains (and thus
289 termination of the SDCs) earlier than would otherwise occur.

290 **Q 33. Is the purpose of the SDCs consistent with the intent of the Standard Rules?**

291 A. Yes. The SDCs are consistent with the intent of the provisions of the Standard Rules
292 discussed above, which is that applicants for service pay an appropriate share of the costs
293 of mains needed to serve them. Under the SDC, Aqua's investment in the Manhattan-
294 Monee Mains would equal 1½ times the Original Prospective Customer Revenue (as
295 defined) from water and sewer customers, as it would under the main extension cost
296 recovery provisions of the Standard Rules.

297 **CALCULATION OF THE SDCs**

298 **Q 34. Will there be separate SDCs for water and sewer service in the Expanded SDC**
299 **Area?**

300 A. Yes. As was the case for the Original SDC Area, in the Expanded SDC Area, separate
301 water and sewer SDCs will be developed, based on the Total Water Main Construction
302 Costs and Total Sewer Main Construction Costs, respectively. Applicants for water and
303 sewer main extensions would continue to pay any other applicable charges, including but
304 not limited to the Sewage Treatment Plant Fund Charge, which would be in addition to
305 the sewer SDC.

306 **Q 35. Please explain generally how the SDCs would be calculated.**

307 A. SDCs for the Expanded SDC Area will be calculated using the same formula approved in
308 the Docket 03-0379 Order. The Commission approved calculation of SDCs for the
309 Original SDC Area on a per PE basis for each lot or premises served by the Manhattan-
310 Monee Mains (or a main connecting thereto). Each residential lot or premises was
311 assumed to have 3½ PEs. The water SDC was calculated, on a per PE basis, as follows:

$$SDC_w = \frac{\text{Total Water Main Construction Costs} - \text{Aqua Water Main Investment} + \text{Carrying Costs}}{\text{Total PEs}}$$

312
 313 Carrying costs were projected based on the estimated rate of development of the Area.
 314 The carrying cost rate is Aqua's last allowed rate of return. The separate sewer SDC was
 315 calculated in the same manner, but reflecting sewer main construction costs and Aqua's
 316 sewer main investment:

$$SDC_s = \frac{\text{Total Sewer Main Construction Costs} - \text{Aqua Sewer Main Investment} + \text{Carrying Costs}}{\text{Total PEs}}$$

317
 318 Aqua will recalculate the SDCs applicable to both the Original SDC Area and Expanded
 319 SDC Area by combining the total number of PEs in both areas. The Original SDC Area
 320 used 2,240 PEs and the Expanded SDC Area will use 1,190 PEs, for total combined PEs
 321 of 3,430. Exhibit E shows the calculation of the water and sewer SDCs using the
 322 projected final construction costs for the Manhattan-Monee Mains, number of lots to be
 323 developed, rate of development of the Area and Aqua's currently authorized rate of
 324 return. As indicated above, the Water and Sewer SDCs would be paid at such time as the
 325 applicant requests that mains connected to the Manhattan-Monee Mains cross the
 326 right-of-way adjacent to a lot or premises that the applicant intends to occupy or develop,
 327 or at the time that an applicant seeks connection of a lot or premises for which the SDC
 328 has not yet been paid.

329 **Q 36. Based on the calculation you have described, what will be the new amount of the**
 330 **SDCs?**

331 A. The water SDC will be \$2,124.08 and the sewer SDC will be \$3,147.76, for a combined
 332 SDC charge on a per lot basis of \$5,271.84.

333 **SDC APPLICATION AND ACCOUNTING**

334 **Q 37. Please explain the accounting for the SDCs.**

335 A. Aqua will continue to account for SDCs in the same manner approved in the Docket 03-
336 0379 Order. The original cost for the Manhattan-Monee Mains (water and sewer,
337 separately), will be placed in Account 106 (Completed Construction Not Yet Classified),
338 the balance of which would be excluded from rate base (water and sewer rate base,
339 respectively). Annually, the balance in Account 106 would be reduced by the total SDC
340 revenue collected during the year (water or sewer separately), and adjusted to account for
341 the carrying costs on the balance in the account attributable to the Water Main or Sewer
342 Main. The Utility Plant Account for Mains (Account 331) and the Account for
343 Contributions (Account 271) accounts (water and sewer, separately) also would be
344 adjusted annually to increase the balance in those accounts by the total SDC revenue
345 collected during the year.

346 **Q 38. How long would the SDCs be in effect?**

347 A. Per the Docket 03-0379 Order, the SDCs for water and sewer service, respectively, will
348 be in place until the balances of water and sewer Account 106 are reduced to the level of
349 Aqua's investment in the Manhattan-Monee Mains. If the Total Water Main
350 Construction Costs less Aqua's Water Main Investment ("Water Recoverable Cost"), and
351 Total Sewer Main Construction Costs less Aqua's Sewer Main Investment ("Sewer
352 Recoverable Cost"), and applicable carrying costs, are not recovered by the end of the
353 twenty year period, the remaining recoverable balances would be left in Account 106
354 (water and sewer, separately), but no additional carrying costs would be applied to the
355 account. If additional customers in the Original SDC Area or Expanded SDC Area take

356 service after the expiration of the twenty year period, they would pay the SDCs until all
357 Water Recoverable Costs, Sewer Recoverable Costs and carrying charges are recovered.
358 The applicable accounting treatment would remain the same as that previously in effect.
359 When the balance of Account 106 (water and sewer, separately) reaches the level of the
360 Aqua Water Main Investment and/or the CIWC Sewer Main Investment, the balance
361 would be transferred to Plant in Service (Account 331) and included in rate base.

362 **Q 39. What would happen if Aqua's allowed rate of return were to change during the**
363 **twenty years that the carrying costs will be applied to the account?**

364 A. The carrying costs applied each year to the balance in each Account 106 would be
365 determined using Aqua's then-current approved rate of return.

366 **Q 40. Does Aqua propose to adjust the SDCs if the build-out period or carrying cost**
367 **changed from the level assumed?**

368 A. No. Aqua proposes that no later adjustment to the SDC(s) be made if there is a difference
369 between the actual and assumed build out period or number of structures in the Areas.
370 Once the amount in Account 106 (water and sewer, separately) attributable to the Water
371 Main or Sewer Main (separately) is reduced to the level of the Aqua Water Main
372 Investment and Aqua Sewer Main Investment, respectively, the balances would be
373 transferred to the rate base accounts for Water and Sewer Plant In Service and the SDC(s)
374 (water or sewer) would be discontinued. Because Aqua will cease recovery of SDC(s) at
375 that time, the Aqua Water Main Investment and Aqua Sewer Main Investment reflected
376 in rate base as Plant In Service (water and sewer, separately) will each be equivalent to
377 the intended 1½ times original customer revenue level (as defined).

378 **Q 41. Does Aqua’s proposal increase risk on existing ratepayers as compared to the**
379 **Standard Rule?**

380 A. No. Under the proposal, the investment included in rate base for the Water Main and
381 Sewer Main will equal the amount intended under the Standard Rules. In fact, the
382 ratepayer is exposed under the SDCs to less risk than it is under the Standard Rules
383 because, under the SDCs, the Company’s required one-and one-half times revenue
384 investment (water and sewer, separately) is not transferred to rate base until all of the
385 Water Main Recoverable Cost, Sewer Main Recoverable Cost and applicable carrying
386 charges, are recovered through payment of SDCs. As discussed above, after 20 years, if
387 Water Main Recoverable Cost or Sewer Main Recoverable Cost (and carrying costs)
388 remains to be recovered (water and sewer, separately), the unrecovered cost balance
389 remains in Account 106 (with no further accrual of carrying cost) unless such time as the
390 balance of Account 106 is reduced to the amounts of the Aqua Water Main Investment
391 and Aqua Sewer Main Investment. Only then is the amount of the Aqua Water Main
392 Investment and Aqua Sewer Main Investment transferred to rate base (water and sewer,
393 separately). As a result, the ratepayer is not exposed to any risk that the Original SDC
394 Area or Expanded SDC Area will not develop as planned. In comparison, under the
395 Standard Rules, the utility’s one-and-one-half times revenue investment in mains is added
396 to rate base even if a proposed development does not proceed. Under the SDCs, the risk
397 that the development may not go forward as planned is borne by the Company’s
398 shareholder. The shareholder is willing to assume the related risks due to an expectation
399 that development of the Original SDC Area and Expanded SDC Area is likely to proceed
400 in accordance with the assumptions used in calculating the SDCs.

401 **Q 42. Does this conclude your Direct Testimony?**

402 B. Yes.