

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

AQUA ILLINOIS, INC :
 :
Petition For Issuance Of A Certificate Of :
Public Convenience And Necessity To : Docket No. 06-0203
Operate A Water Supply And Distribution :
System In Kankakee County, Illinois And For :
The Issuance Of An Order Approving Rates, :
Accounting Entries and Tariff Language :

Surrbuttall Testimony of

TERRY J. RAKOCY

President
Aqua Illinois, Inc.

February 7, 2007

1 **Q. Please state your name.**

2 A. Terry J. Rakocy.

3 **Q. What is your business address?**

4 A. 1000 South Schuyler Avenue, Kankakee, Illinois 60901.

5 **Q. By whom are you employed and in what capacity?**

6 A. Aqua Illinois, Inc. (“Aqua” or “Company”) as its President.

7 **Q. Please describe your education and experience.**

8 A. I graduated from Youngstown University, Youngstown, Ohio in 1972. I received a
9 Bachelor of Science Degree in Industrial Engineering. In addition, I attended the Ohio
10 State University College of Business, and completed the Executive Development
11 Program in 1990. I hold a Professional Engineer registration from the State of Ohio. I
12 have thirty years of progressive management experience in the area of water supply,
13 treatment, and distribution; plus experience in wastewater collection and treatment. The
14 experience has included seven years of operation responsibilities as Chief Engineer of the
15 63,000 customer City of Youngstown, Ohio municipal water system; Project Manager for
16 a 3.0 MGD water treatment plant expansion; Assistant Division Manager and Division
17 Manager for the 25, 000 customer Consumers Ohio Water Company, Massillon Division;
18 President of Aqua Illinois, Inc., Aqua Indiana, Inc., and Aqua Missouri, Inc.

19 **Q. Have you testified previously in this proceeding?**

20 A. No, but I am adopting as my own the direct testimony and rebuttal testimony previously
21 filed in this docket by Mr. Thomas Bunosky.

22 **Q. Was the testimony adopted by you, prepared by you or under your supervision?**

23 A. Yes, it was.

24 **Q. What is your relationship to Mr. Bunosky?**

25 A. I am the President of Aqua Illinois, Inc. and Mr. Bunosky was the VP/Regional Manager
26 of Aqua Illinois, Inc. Mr. Bunosky reported directly to me in his capacity.

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

28 A. As noted, I will adopt the direct and rebuttal testimony of Mr. Bunosky dated July 26,
29 2007 and December 20, 2006, respectively. I will also address the rebuttal testimonies of
30 Staff witnesses Mr. Luth and Ms. Pearce, and Ms. Sandra L. Hartman, a resident of
31 Manteno.

32 **Q. Have you reviewed the testimonies of Staff witnesses Mr. Luth and Ms. Pearce?**

33 A. Yes.

34 **Q. Do you have any comments on their testimonies?**

35 A. No. Solely for the purpose of limiting litigation in this docket alone, Aqua is willing to
36 make the concessions in response to the proposals of Staff witnesses Mr. Luth and
37 Ms. Pearce that are set forth in the rebuttal testimonies of Aqua witnesses Mr. Bunosky
38 (which I am adopting) and Mr. Hanley. The Company is making these concessions even
39 though it does not agree with the merits of the respective Staff witnesses' proposals and,
40 therefore, reserves its rights to litigate these issues should they arise in future
41 proceedings.

42 **Q. Have you reviewed the Rebuttal Testimony of Ms. Hartman?**

43 A.. Yes, I have.

44 **Q. Do you agree with Ms. Hartman's testimony?**

45 A. I do not.

46 **Q. Please explain generally why you disagree with Ms. Hartman.**

47 A. In four pages, Ms. Hartman explains that she disagrees with the decision made by the
48 Village of Manteno to sell its water system.

49 **Q. Ms. Hartman raises what she sees as a conflict of interest in Mr. Richard Simms in**
50 **providing his opinion on the value of the Manteno water system while at the same**
51 **time he is the superintendent of the Kankakee treatment plant. Do you view**
52 **Mr. Simms' various roles as presenting a conflict of interest?**

53 A. No, I do not. Aqua Illinois is a subsidiary of a national company. Aqua does business
54 with many, if not all, of the local engineering firms. Furthermore, it would be difficult to
55 find any one firm or combination of firms in the immediate area who do not interact with
56 Aqua Illinois in some capacity or another (reviews, inspections, etc.). So, implying that
57 there is a conflict because of Mr. Simms' interaction with Aqua Illinois would imply that
58 any engineering firm who interacts in any way with Aqua Illinois would have a conflict,
59 as well. While evaluating the system and making a recommendation, Mr. Simms
60 conducted himself in a very professional manner, at arms length and introduced several
61 ideas, many of which the Village used to the benefit of the Village, such as the franchise
62 agreement, which did not benefit Aqua Illinois. Had Mr. Simms been looking out for the
63 best interest of Aqua Illinois and not for the best interest of the Village of Manteno, as
64 Ms. Hartman implies, he would not have suggested that the Village of Manteno charge
65 the Company a franchise fee.

66 **Q. Ms. Hartman implies that the Village's need for capital investment has been**
67 **overstated and that there are no water quality issues, but rather "paperwork**
68 **violations." Do you agree?**

69 A. No. Ms. Hartman misses that the problem lies with the source of supply, not the
70 infrastructure. The focus should be on the millions of dollars that the Village would have
71 to spend in either constructing a plant or outfitting the system to buy bulk that will not be
72 realized should the Village sell the system.

73 I have no doubt that Ms. Hartman believes what she is doing is in the best interest of
74 Manteno, but there is no way she can be knowledgeable on the subject as she was not
75 involved in the alternative evaluation and negotiation process with the Village. While it
76 appears she is relying solely on the 2004 Baxter and Woodman report as her primary
77 source of information on the subject, there has been a great deal of information
78 introduced since the study was conducted, which proves the initial recommendation
79 unrealistic.

80 **Q. What are your views on the water quality issues, which Ms. Hartman dismisses as**
81 **“paperwork violations”?**

82 A. The Village has had samples test positive for coliform presence after being treated by the
83 ultraviolet reactors at the well house, both at the finished water tap and in the distribution
84 system. After re-sampling the locations, tests were conducted that indicated the water
85 supply was safe. The 2005 paperwork violations dealt with the number of samples the
86 Village took during the re-sampling at the well house. The Village traditionally samples
87 one repeat upstream, one downstream, and one at the affected site. In the case of the
88 finished water samples, there is not an upstream site. Therefore, the Village sampled the
89 downstream stream site along with the affected site. IEPA has designated that when a
90 repeat sample is needed from a finished water tap that the operator must draw two
91 samples downstream, instead of one upstream and one downstream. In the cases cited in

92 Ms. Hartman’s rebuttal, the violations themselves were not due to the water quality; but,
93 the act of re-sampling, which precipitated the question over sampling protocol, was
94 caused by positive detections of coliform. The UV Reactors have performed positively;
95 although, there have been occasions where detections have occurred post-UV. This is
96 evident from a December 1, 2005 letter from John Dalessandro, from IEPA’s Elgin
97 Regional Office, when he states: “The Illinois Environmental Protection Agency is
98 uncomfortable with the microbiological testing results being obtained from Manteno’s
99 public water supply system. Several water samples taken from “finished” sites and
100 locations within the distribution system have tested positive for coliform (including fecal)
101 bacteria, which is considered an indicator for more serious forms of contamination. In
102 most cases, the bacteria are not being detected in follow-up samples. This Agency is
103 concerned that the relatively frequent detection of coliform bacteria in samples taken
104 after treatment cannot be ignored, even if the individual detections are not confirmed by
105 follow-up testing.” I have attached the entire document from Mr. Dalessandro as Exhibit
106 TJR-6.1 to further support the water quality issues that exist in the Manteno system.
107 Ms. Hartman has cited the Drinking Water Watch Website as the basis for her contention
108 that Manteno has not had a bad sample since Aqua began to manage the system.
109 Manteno’s raw sample results do not show up on Drinking Water Watch, so it is not
110 appropriate to use it as a basis for determining whether or not Manteno is in compliance.
111 The basis for the Compliance Commitment Agreement with IEPA, which precipitated the
112 sale, is based on Manteno’s raw water quality, which continues to be the issue.

113 **Q. Ms. Hartman makes a point in her testimony that subsequent to the Village’s**
114 **decision to sell its water system “Manteno’s supervisor in charge of the water**

115 **samples was promoted to Village Administrator without a degree or any prior**
116 **experience in that field.” Will you comment?**

117 A. I fail to see the correlation between the Mayor’s appointments and the Village’s long-
118 term solutions to its water quality problems.

119 **Q. Will you address Ms. Hartman’s contention that the sale of Manteno water system**
120 **to Aqua produced a higher rating (less desirable) than any other alternative**
121 **reviewed.**

122 A. In the public hearing presentation of Mr. Blanchette, he demonstrated that selling the
123 water system was not going to be the highest cost to Manteno residents over a period of
124 time. He even included a breakdown of the projected 5 year costs as calculated by Baxter
125 and Woodman. Ms. Hartman continues to cite information in her rebuttal that was
126 gathered and analyzed in 2005. This information is no longer current and many factors
127 have been introduced since the 2005 study that contradicts Baxter and Woodman’s
128 original conclusions. This is clearly stated in the November 8, 2006 Baxter and
129 Woodman letter that Ms. Hartman refers to earlier in her rebuttal. It would appear that
130 Ms. Hartman believes that Baxter and Woodman are “reputable” enough to render an
131 initial opinion but apparently not “reputable” enough to revise it as necessary when
132 conditions change or new circumstances are introduced.

133 **Q. Do you agree with Ms. Hartman’s statement that “If Manteno owned its system,**
134 **increases would be only in Maintaining [sic] and operating the system, not to profit**
135 **shareholders and CEOs”?**

136 A. Selling the system to Aqua Illinois is the most cost effective method for the residents of
137 Manteno. Ms. Hartman indicates that future increases would only be for operation and

138 maintenance (“O&M”) of the system. While future increases associated with O & M are
139 applicable to all three scenarios, she does not take into consideration the capital costs
140 associated with construction of a treatment plant or the necessary infrastructure to buy
141 bulk water. Those figures, which were cited in Mr. Blanchette’s testimony at the public
142 hearing, played a significant role in the Village Board’s decision to sell the system. The
143 figures Baxter and Woodman used in their initial assessment of the future water bills did
144 not take into consideration many of the factors that later emerged in the evaluation
145 process. In addition, Baxter and Woodman’s initial recommendation relied heavily on
146 the Village to grow and at a fairly rapid rate. To date, their population projections have
147 fallen short, which would leave existing residents to shoulder the burden of a \$16 million
148 (buying bulk) to \$25 million (treatment plant construction) dollar bond. Again, this is
149 acknowledged in the November 2006 letter from Baxter and Woodman, and it was
150 discussed at the Public Forum that was held that Ms. Hartman attended.

151 **Q. Ms. Hartman implies that Aqua has unfairly raised its rates to its existing**
152 **customers. Would you please respond?**

153 A. The Commission thoroughly reviews each of Aqua’s requested rate changes, and ensures
154 that Aqua’s rates are set to only recover Aqua’s prudently incurred costs of providing
155 service and a reasonable return on Aqua’s investment.

156 **Q. Do you agree with Ms. Hartman’s implication that the shareholders of Aqua’s**
157 **parent company are benefiting at the expense of Aqua’s customers?**

158 A. No. As noted, the Commission ensures that Aqua’s rates are set to only recover Aqua’s
159 prudently incurred costs of providing service and a reasonable return on Aqua’s
160 investment. Aqua’s parent company is a separate entity that is not subsidized by Aqua’s

161 customers. The Commission oversees the relationship between Aqua and its parent
162 company to ensure that no improper subsidies are transferred.

163 **Q. Does this conclude your testimony at this time?**

164 A. Yes, it does.