

AQUA ILLINOIS, INC.

**DIRECT TESTIMONY
OF
TERRY J. RAKOCY**

(Docket 06-0795)

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

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

42 **PURPOSE OF TESTIMONY**

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

44 A. Aqua has filed a Petition seeking a Certificate of Convenience and Necessity
45 ("Certificate") which authorizes Aqua to construct, operate and maintain water and sewer
46 distribution systems, and in connection therewith, transact a public utility business in ten
47 parcels in Lake County, Illinois (the "Hawthorn Expansion Areas"), that are adjacent to
48 Aqua's Hawthorn Woods service area ("Hawthorn Area") and Kemper Lakes service area
49 ("Kemper Area"). Aqua also requests approval of accounting entries, depreciation rates,
50 rates for water and sewer service, and of the filing of certain new tariffs. I will address

51 various regulatory aspects of the Petition filed by the Company in this matter, including
52 matters related to the area to be served, the required facilities, and the requested
53 approvals for accounting entries, depreciation rates, and rates for water service.

54 **BACKGROUND**

55 **Q 7. Please describe Aqua.**

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

60 **Q 8. Please describe the proposed service area.**

61 A. The Hawthorn Expansion Areas consist of the following ten parcels: (1) Winchester; (2)
62 High Pointe Estates; (3) Fiore; (4) Towne; (5) Countryside Meadows; (6) Kemper 6; (7)
63 Kemper 7; (8) Owl Haven; (9) Stonewood Glen; and (10) Individual Residential (2 lots),
64 as shown on attached Aqua Exhibit 1.1. Parcels 1 through 10 are legally described on
65 attached Aqua Exhibit 1.2. The Hawthorn Expansion Areas presently consist of
66 approximately 554 acres, which are being developed for primarily residential housing,
67 with some commercial development, by certain developers (the "Developers"). There are
68 currently 470 proposed lots to be developed (this number is subject to change following
69 the subdivision plan review by the Villages of Hawthorn Woods or Kildeer).

70 **CERTIFICATE OF CONVENIENCE AND NECESSITY**

71 **Q 9. Has Aqua been asked to provide service in an the Hawthorn Expansion Areas?**

72 A. Yes. The Developers of the Hawthorn Expansion Areas have requested that Aqua extend
73 water and/or sewer service from existing mains that serve the Hawthorn Area and the

74 Kemper Area. Aqua has been requested to provide water and sewer service to members
75 of the public in eight of the ten parcels in the Hawthorn Expansion Areas: Winchester,
76 High Pointe Estates, Fiore, Towne, Countryside Meadows, Owl Haven, Stonewood Glen,
77 and Individual Residential ("Water and Sewer Parcels"). Aqua has been requested to
78 provide water service only to members of the public in the remaining two parcels:
79 Kemper 6 and Kemper 7 ("Kemper 6 & 7 Parcels"). The occupants of this residential and
80 commercial property will require public water and/or sewer service. At present, there is
81 no public water service provided in the Hawthorn Expansion Areas and no public sewer
82 service provided in the Water and Sewer Parcels.

83 **Q 10. Are there other entities besides Aqua that could provide the necessary public water**
84 **or sewer service?**

85 A. No. Neither the Village of Hawthorn Woods ("Village"), nor any other municipal
86 corporation, nor any other entity is willing or able to provide water service to the
87 Hawthorn Expansion Areas or sewer service to the Water and Sewer Parcels. As
88 required by 83 Illinois Administrative Code § 200.150(b), a copy of the Petition in this
89 proceeding was served on each municipality located partly or wholly within the
90 Hawthorn Expansion Areas, or with a corporate boundary that is within one and one-half
91 miles of the Hawthorn Expansion Areas.

92 **Q 11. Will occupants of the Hawthorn Expansion Areas require water and sewer services?**

93 A. Yes. As noted above, the occupants of the Water and Sewer Parcels will require water
94 and sewer service and the occupants of the Kemper 6 & 7 Parcels will require water
95 service.

96 **Q 12. Please discuss the Certificate that Aqua seeks in this proceeding.**

97 A. In this proceeding, Aqua seeks a Certificate authorizing it to provide public water and/or
98 wastewater service within the Hawthorn Expansion Areas, which are contiguous to the
99 Hawthorn Area and the Kemper Area. The Commission entered an Order granting Aqua
100 a Certificate to provide water and wastewater service within the Hawthorn Area in
101 Dockets 03-0455 and 03-0550 (consol.) and a Certificate to provide water service within
102 the Kemper Area in Docket 06-0043.

103 **Q 13. Is construction of the proposed main extension necessary to provide adequate,
104 reliable and efficient water service to customers within the Hawthorn Expansion
105 Areas?**

106 A. Yes. Construction of proposed main extensions is necessary to provide adequate, reliable
107 and efficient water and sewer service for customers within the Hawthorn Expansion
108 Areas.

109 **Q 14. Is Aqua capable of managing and supervising the construction of the proposed main
110 extensions?**

111 A. Aqua is capable of efficiently managing and supervising the construction process and
112 Aqua will take steps to assure that the construction process and supervision thereof will
113 be adequate and efficient, and that the cost it will incur for these facilities is the least-cost
114 means of providing the required water and/or sewer service.

115 **Q 15. Please discuss Aqua's financial ability to provide the necessary water service.**

116 A. Aqua has the technical, financial and managerial ability to construct, operate and
117 maintain public sewer collection and water distribution systems for the Hawthorn
118 Expansion Areas, without adverse financial consequences for existing customers. The

119 provision of public water and/or sewer service in the Hawthorn Expansion Areas will
120 impose no financial burden on either Aqua or its existing customers. The attached Aqua
121 Exhibit 1.3 provides information demonstrating that Aqua is financially sound and is
122 capable of financing the proposed construction without significant adverse financial
123 consequences for Aqua or its customers. Also, existing customers would experience
124 benefits from growth of the Aqua system as common costs are spread over a larger
125 customer base.

126 **THE WATER MAIN EXTENSIONS**

127 **Q 16. Describe Aqua's existing facilities that would be involved in serving the Hawthorn**
128 **Expansion Areas.**

129 A. The Hawthorn Water System consists of (i) two deep wells with a combined capacity of
130 1.1 million gallons per day ("mgd") located at the water treatment plant at the intersection
131 of Old McHenry Road and Midlothian Road; (ii) a single deep well with a capacity of 1.2
132 mgd located just off of Schwerman Road near the entrance to the Hawthorn Woods
133 Country Club; (iii) a 634,000 gallon per day water treatment plant located at the
134 intersection of Old McHenry Road and Midlothian Road; (iv) a 370,000 gallon water
135 storage tank located at the intersection of Old McHenry Road and Midlothian Road; and
136 (v) 22,300 lineal feet of 8", 12" and 16" water main with 98 fire hydrants connected to
137 the water mains.

138 The Hawthorn Sewer System consists of a 320,000 gallon per day wastewater treatment
139 facility with spray irrigation; 2 lift stations; 12,090 lineal feet of 8", 10" and 15" gravity
140 sewer mains; and 10,800 lineal feet of force mains.

141 **Q 17. Can you discuss the capacity of Aqua's existing facilities?**

142 A. Yes. For the Company's Hawthorn Woods water system, for 2006 the average demand
143 was 0.19 mgd and the peak demand was 0.86 mgd. The water supply rated capacity is
144 1.76 mgd. At full build out of the expanded areas, estimated to be 2013, the new average
145 demand would be 0.87 mgd and the peak demand would be 2.62 mgd. The current water
146 system would not be able to accommodate the proposed and current certificated area at
147 full build-out without some improvements. The Company expects to add storage and an
148 additional ion exchange unit to remove radium at the existing water treatment plant as the
149 area grows and demand increases. However, the current supply is sufficient and new
150 wells would not be required for the Hawthorn Expansion Areas.

151 With regard to sewer service, for 2006 the average sewer demand was 0.087 mgd
152 and the peak demand (max flow) was 0.224 mgd. The current average sewer capacity
153 rating for the Hawthorn woods sewer system is 0.406 mgd and the max flow capacity
154 rating is 1.389 mgd per IEPA permit. The existing area and the expanded areas
155 combined are estimated to have an average sewer demand in 2013 of 0.47 mgd and a
156 peak demand of 1.41 mgd. In 2013 the existing Hawthorn Woods storage lagoon will be
157 expanded per an agreement between Toll Brothers Hawthorn Woods Country Club and
158 Aqua, at no cost to Aqua. The expansion will establish the average sewer capacity rating
159 for the sewer system at 0.567 and the max flow capacity rating at 1.940 mgd.

160 **Q 18. Please describe the proposed main extensions.**

161 A. The facilities necessary to extend water and/or sewer service to customers in the
162 Hawthorn Expansion Areas (the "Extension Mains") will consist of water and wastewater
163 mains necessary to meet the service requirements. Specifically, Aqua will follow its
164 standard main extension rules for water and sewer main extension. As the Developers
165 prepare detailed design plans for their respective developments, Aqua will review the
166 plans to assure the service requirements can be met and approve the design. The plans
167 would be submitted to the IEPA for construction and operating permits for both the water
168 and sewer mains. Following receipt of the construction permits, the water and sewer
169 mains would be constructed by the Developers and Aqua would approve them for
170 service.

171 **Q 19. What rules will govern the Extension Mains' extension to the Hawthorn Expansion**
172 **Areas?**

173 A. The Extension Mains will be constructed pursuant to Aqua's Rules, Regulations and
174 Conditions of Service (Water), Section 29 (ILL. C.C. No. 47, Sec. 1, Original Sheet Nos.
175 32-33), and Aqua's Rules, Regulations and Conditions of Service (Sewer), Section XI
176 (ILL. C. C. No. 48, Sec. 1, Original Sheet Nos. 28-30), regarding main extensions
177 ("Standard Main Extension Rules"), or under terms otherwise approved by the
178 Commission. In accordance with the Standard Main Extension Rules, the cost of the
179 Extension Mains will be paid by applicants for the extensions, and Aqua will pay the
180 applicants 1 ½ times estimated annual revenue from the Original Prospective Customers
181 (as defined in the Standard Main Extension Rules) at the time title to the Extension Mains
182 is transferred.

183 **Q 20. Will fire protection service be provided in the Hawthorn Expansion Areas?**

184 A. Yes. The system of water mains in the Hawthorn Expansion Areas will be adequately
185 sized to permit the installation and proper operation of public fire hydrants. Aqua loops
186 its systems as often as practical and reviews pipe sizing for fire flows. The smallest main
187 Aqua designs for is 8" in diameter, which allows for proper operation of public fire
188 hydrants.

189 **Q 21. Does Aqua anticipate a need to acquire rights-of-way for the Extension Mains from**
190 **private landowners?**

191 A. At present, a need for acquisition of rights-of-way from private landowners is not
192 anticipated. If acquiring rights-of-way from private landowners becomes necessary,
193 Aqua will follow the provisions of Part 300 of the Commission's rules (83 Ill. Admin.
194 Code, Part 300).

195 **ACCOUNTING ENTRIES**

196 **Q 22. Please discuss the accounting entries proposed by the Company.**

197 A. In accordance with Commission policy and the Uniform System of Accounts (83 Ill.
198 Admin. Code, Part 605, Accounting Instruction 17), Aqua proposes to record the original
199 cost of the Extension Mains for the Hawthorn Expansion Areas in the applicable Utility
200 Plant In Service accounts (Account 331). The Company proposes to record the
201 Developers' costs of construction as a contribution in Account 252 - Contributions in Aid
202 of Construction. At the time title to the Extension Mains are transferred to Aqua, Aqua
203 will debit Account 252 in the amount of 1 ½ times estimated annual revenue from the
204 Original Prospective Customers, representing its payment to the Developer under the

205 Standard Main Extension Rules. A schedule of the proposed accounting entries is
206 attached as Aqua Exhibit 1.4.

207 **DEPRECIATION RATES**

208 **Q 23. What depreciation rates does the Company propose?**

209 A. For the Hawthorn Expansion Areas, Aqua proposes to use the depreciation rates for the
210 Hawthorn and Kemper Areas, as now in effect or as subsequently revised. See schedule
211 attached as Aqua Ex. 1.5, which shows the depreciation rates were established in Docket
212 Nos. 03-0455/03-0550 (consolidated).

213 **APPLICATION OF RATES**

214 **Q 24. What rates does the Company propose to charge for water service?**

215 A. Aqua proposes that the charges for water service in the Hawthorn Expansion Areas be the
216 same as the approved rates for the Hawthorn and Kemper Areas, as now in effect or as
217 subsequently revised. Aqua proposes that the charges for sewer service in the Water and
218 Sewer Parcels be the same as the approved rates for the Hawthorn Area, as now in effect
219 or as subsequently revised. In addition, all other applicable water and wastewater
220 charges for the Hawthorn Area would apply to service within the Hawthorn Expansion
221 Areas, including, but not limited to, public and private fire protection charges, returned
222 check charges, late-payment fees and State and municipal add-on taxes or fees.

223 **Q 25. Has Aqua prepared an operating income statement?**

224 A. Yes. A Forecasted Operating Income Statement for the Hawthorn Expansion Areas is
225 attached as Aqua Exhibit 1.6. The Forecasted Operating Income Statement shows figures
226 for both the Hawthorn Expansion Areas and the combined Hawthorn Area, Kemper Area
227 and Hawthorn Expansion Areas ("Combined Area"). As Exhibit 1.6 shows, the rates for

228 the Combined Area do not produce a rate of return in excess of Aqua's last allowed rate
229 of return. In addition, Aqua has prepared a schedule, attached as Aqua Exhibit 1.7,
230 showing operating income for the Hawthorn Area for 2005-2006 as compared to the
231 forecasts of operating income made in Dockets 03-0455 and 03-0550 (consol.).

232 **Q 26. Will Aqua continue to provide Commission Staff with financial information in**
233 **accordance with the Orders in Dockets 03-0455 and 03-0550 (consol.) and Docket**
234 **06-0043?**

235 A. Yes. Aqua will provide to the Chief Clerk of the Commission, with a copy to the
236 Manager of Accounting, by March 31 and September 30 of each year, a copy of actual
237 financial information through December 31 and June 30, respectively, for the Combined
238 Area. This procedure will continue until a rate filing for Hawthorn Woods service area is
239 filed and an Order from the Commission is entered.

240 **Q 27. What rules, regulations, and conditions of service will apply in the Hawthorn**
241 **Expansion Areas?**

242 A. Aqua's Rules, Regulations and Conditions of Service - Water (ILL. C.C. No. 47, Section
243 No. 1, Sheets 1-47) will apply to water service and Rules, Regulations and Conditions of
244 Service - Sewer (ILL. C.C. No. 48, Section No. 1, Sheets 1-32) will apply to sewer
245 service in the Hawthorn Expansion Areas. These Rules, Regulations and Conditions of
246 Service apply to the Hawthorn Area, Kemper Area and all Aqua's other service areas.

247 **Q 28. Does Aqua propose any changes to its tariff pages?**

248 A. Yes. Aqua proposes to file revised tariff pages for the Hawthorn Area, which includes
249 the Hawthorn Expansion Areas, that are substantially in the form of attached Aqua

250 Exhibit 1.8. The tariff pages are identical to the tariff pages currently in effect for the
251 Hawthorn Area, with the following changes. First, the area that the tariff applies to has
252 been changed, where applicable, to include the "Village of Hawthorn Woods" and
253 "Kemper 6 & 7 Parcels" in order to apply to the Kemper 6 & 7 Parcels, which are outside
254 the corporate limits of the Village (the remaining eight parcels in the Hawthorn
255 Expansion Areas will be annexed to the Village). Second, pursuant to an agreement
256 between the Village and the developer of the Kemper 6 & 7 Parcels ("Agreement,"
257 attached as Aqua Exhibit 1.9), certain fees, permits, or authorizations may be required to
258 be paid to and/or received by the Village prior to customers in the Kemper 6 & 7 Parcels
259 requesting water service from Aqua. The proposed tariff make reference to the fees,
260 permits, or authorizations to avoid a situation in which Aqua would be obligated to
261 connect customers but unable to do so because the developer of the Kemper 6 & 7
262 Parcels had not complied with the Agreement.

263 **Q 29. Does this conclude your Direct Testimony?**

264 A. Yes, it does.