

**Direct Testimony**  
**Of**  
**William R. Johnson**

Water Department  
Financial Analysis Division  
Illinois Commerce Commission

Aqua Illinois, Inc.  
Application for Certificate of Public  
Convenience and Necessity to Operate  
A Water Supply and Distribution System  
And a Sewer Collection System;  
And for a Variance from Main Extension Deposit Rules  
To Expand System Development Charges.

Docket No. 06-0655

March 28, 2007

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1 **WITNESS IDENTIFICATION**

2 **Q. Please state your name, your employer, and your business address.**

3 A. My name is William R. Johnson. I am employed by the Illinois Commerce  
4 Commission ("ICC" or "Commission"). My business address is 527 East Capitol  
5 Avenue, Springfield, Illinois 62701.

6  
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since September 1, 1994.

9  
10 **Q. Please briefly state your qualifications.**

11 A. I received a Bachelor of Arts degree in Economics from Sangamon State  
12 University (now University of Illinois at Springfield) in May 1990 and a Master of  
13 Arts degree in Economics, also from Sangamon State University, in December  
14 1993.

15  
16 In September 1994, I was assigned to the Commission's Public Utilities Division  
17 as an Economic Analyst for the Rates Department. In that capacity I reviewed  
18 and analyzed filings by electric, gas, and water utilities with regard to cost of  
19 service and rate design. I made recommendations to the Commission on such  
20 filings and participated in docketed proceedings as assigned. In January 2000, I  
21 was reassigned to the Water Department of the Financial Analysis Division as an  
22 Economic Analyst. My duties include: 1) evaluating rate filings; 2) assisting the  
23 Consumer Services Division in handling inquiries and complaints, upon request;

24 3) evaluating testimony presented by utilities; and 4) testifying as a Commission  
25 Staff witness ("Staff") in rate proceedings, applications for certificates,  
26 applications for reorganizations, and other formal proceedings which include  
27 water and/or sewer related issues.

28

29 **Q. Have you previously testified before the Commission?**

30 A. Yes, I have previously testified before the Commission on numerous issues  
31 related to my duties.

32

33 **PURPOSE OF TESTIMONY**

34 **Q. What is the purpose of this proceeding?**

35 A. On October 6, 2006, Aqua Illinois, Inc. ("Aqua" or "Company") filed a Petition  
36 ("Petition") for a Certificate of Public Convenience and Necessity ("Certificate") to  
37 construct, operate and maintain a water distribution system and sewer collection  
38 system in Will County, Illinois (the "Expanded Area"). Aqua is also requesting a  
39 variance from the main extension deposit provisions of its Rules, Regulations and  
40 Conditions of Service to expand water and sewer system development charges  
41 ("SDCs") approved by the Commission in its Order dated October 8, 2003 in  
42 Docket No. 03-0379.

43

44 **Q. What is the purpose of your testimony?**

45 A. The purpose of my testimony is to recommend to the Commission whether or  
46 not: (i) Aqua's proposed certificated area encompassing the Expanded Area

47 should be approved, (ii) Aqua providing water and sewer service to the proposed  
48 Expanded Area, situated in Will County, Illinois, meets the public convenience  
49 and necessity requirements of Section 8-406 of the Public Utilities Act (“Act”),  
50 and therefore should be issued a Certificate, (iii) Aqua should be granted a  
51 variance from the main extension deposit provisions of Aqua’s Rules,  
52 Regulations and Conditions of Service to expand SDCs for water and sewer, (iv)  
53 the depreciation rates applicable to Aqua’s University Park Division’s service  
54 area (“UP”) should apply to the Expanded Area, and (v) Aqua’s current rules,  
55 regulations, and conditions of service should be applicable to the proposed  
56 certificated area.

57

58 **Q. What information have you reviewed with respect to Aqua’s requests in the**  
59 **instant proceeding?**

60 A. I have reviewed the Company’s Petition, including all Exhibits attached thereto,  
61 the Direct Testimony of Terry J. Rakocy (AQUA EXHIBIT 1.0), and the  
62 Supplemental Direct Testimony of Terry J. Rakocy (AQUA EXHIBIT 2.0). I  
63 prepared data requests and reviewed the Company’s responses to Staff data  
64 requests. In addition, I inspected the area for which Aqua is requesting a  
65 Certificate, along with the water and sewer facilities that will serve them, on  
66 December 6-7, 2006. During the inspection I visually verified the proposed  
67 certificated Area as depicted on the Company’s map, attached as Exhibit A to the  
68 Petition.

69

70 **CERTIFICATE AREA**

71 **Q. Please discuss the area for which the Company is requesting a Certificate.**

72 A. Aqua is requesting a Certificate to construct, operate and maintain a water and  
73 sewer supply system consisting of 6,400 acres of land which is contiguous to  
74 Aqua's University Park service area's current certificated area. The Company,  
75 formerly Consumers Illinois Water Company, was granted Certificates of Public  
76 Convenience and Necessity in Docket Nos. 84-0116, 88-0060, 94-0461, and 98-  
77 0340. Aqua states that there are currently ten planned developments for the  
78 proposed Expanded Area. (Petition, p.3). The Company has provided a map and  
79 legal description attached to its Petition as Exhibits A, and C, respectively.

80

81 **Q. Will the Company be acquiring any easements in connection with the**  
82 **proposed Expanded Area?**

83 A. No. At the present time a need for acquisition of rights-of-way from private  
84 landowners is not anticipated and Aqua has stated that it will follow the provisions  
85 of Part 300 of the Commission's Rules, 83 Ill. Adm. Code 300 if rights-of-way are  
86 needed (Rakocy Direct Testimony, p. 11).

87

88 **Q. Was it necessary for Aqua to obtain an Agricultural Impact Mitigation**  
89 **Agreement with the Illinois Department of Agriculture?**

90 A. In response to Staff Data Request WD 1.20, the Company stated that no  
91 agreement had been entered into with the Illinois Department of Agriculture since  
92 the water mains are not anticipated to impact agricultural activities.

93

94 **Q. Please describe the facilities by which the Expanded Area will be served.**

95 A. The water facilities include four wells that are located throughout the University  
96 Park system. Aqua also has two wells, which are currently idle, that could be  
97 used in the future. The water is treated with chlorine, fluoride, and poly  
98 phosphate. There is a 300,000 gallon elevated storage tank and two 1.5 million  
99 gallon ground storage reservoirs. The sewer treatment facility employs an  
100 oxidation ditch activated sludge treatment system coupled with a tertiary sand  
101 filtration system and ultraviolet light system to achieve permit compliance.

102

103 **Q. Does the University Park water system have sufficient capacity to serve the**  
104 **Expanded Area?**

105 A. In response to Staff Data Request WD 1.17, the Company stated:

106 The current water system will have no problem meeting the average  
107 demand on the system including the proposed new areas. The  
108 current system has capacity to serve the existing customers plus 13  
109 years of growth at 95 customers per year for the current and  
110 proposed areas before peak demand would exceed current capacity.  
111 Aqua has several alternatives to meet the future growth of the entire  
112 region. The company would look to expand its capacity by placing  
113 well station # 5 in service at a cost of \$400,000, place well station #7  
114 in service at a cost of \$340,000, or purchase water from Richton  
115 Park (cost not currently evaluated).

116

117 As such, it appears that Aqua has sufficient water capacity to serve the proposed  
118 Expanded Area.

119

120 **Q. Does the University Park sewer system have sufficient capacity to serve**  
121 **the Expanded Area?**

122 A. In response to Staff Data Request WD 2.02 the Company stated that based on  
123 the Illinois Environmental Protection Agency (“IEPA”) standard of 350 gallons per  
124 day per residential unit, if all of the proposed subdivisions are built, the Aqua  
125 wastewater treatment plant (“WWTP”) would not have sufficient capacity to serve  
126 all of the proposed residential units as they are built. Aqua did state that there is  
127 enough capacity in the existing WWTP to serve the current certificated area, but  
128 only for a projected 5 years, and only for currently planned or existing  
129 subdivisions. Based on the current WWTP treatment flows and IEPA approved  
130 subdivisions, only an additional 334 residential homes can be approved for sewer  
131 service before the WWTP reaches rated capacity. This could result from as few  
132 as one additional subdivision being constructed. Because the IEPA has placed  
133 Aqua on critical review status, additional sewer capacity will be necessary to  
134 continue to serve the existing certificated area and to be able to extend sewer  
135 mains within the existing certificated area for future subdivisions. The Company  
136 also stated that sewer capacity will be needed regardless of whether they are  
137 granted a certificate to serve the expanded area (Response to Staff Data  
138 Request WD 2.02).

139  
140 **Q. Did Aqua provide an explanation for the insufficient sewer capacity at their**  
141 **University Park facility and what they plan to do to alleviate it?**

142 A. Yes. In response to Staff data request WD 2.01 the Company stated:

143 On January 25, 2006 Aqua Illinois, Inc. University Park Sewer  
144 Division ("Aqua") was placed on IEPA Critical Review Status due to  
145 reaching over 80% of its Wastewater Treatment Plant ("WWTP")  
146 rated capacity. There is still WWTP capacity remaining at the  
147 WWTP. However, Aqua needs to plan for additional capacity in order  
148 to serve the sewer demands of the regional area above the rated  
149 capacity of the WWTP. The main reasons for Aqua being placed on  
150 critical review status is that in 2003, the Village of Monee terminated  
151 the bulk wastewater treatment agreement (under which Aqua was  
152 obligated to provide 300,000 gpd of wastewater treatment capacity to  
153 Monee), effective October 16, 2006. This capacity equates to the  
154 ability to serve an additional 850 residential homes. This excess  
155 capacity from the Village of Monee, combined with the current  
156 excess capacity of the WWTP, would have provided more capacity  
157 than needed to serve the residential units currently proposed by all  
158 developers in the existing certificated area and in the proposed  
159 certificate area. Therefore, Aqua believed there was no need to  
160 increase capacity at the WWTP. In 2005, however the Village of  
161 Monee decided to extend its bulk wastewater treatment agreement.  
162 By this time it was too late to construct a WWTP expansion before  
163 being placed on critical review status. In 2003, prior to the Monee  
164 contract termination, Aqua had taken steps to do preliminary  
165 engineering on expanding the WWTP. Construction never started  
166 because there was no need for additional capacity once the Village  
167 of Monee announced that it was terminating the wastewater  
168 treatment agreement.

169  
170 In order for Aqua to be removed from the critical review status, Aqua  
171 must either provide additional treatment capacity at the WWTP or  
172 reduce the current capacity. Aqua has a number of options that it is  
173 considering to correct the current situation and be removed from the  
174 IEPA critical review status. These options are listed as follows:

- 175
- 176 1. Expand the existing WWTP capacity by constructing additional  
177 equipment and treatment structures to treat an increased amount  
178 of sewage.
  - 179 2. Off load part of the sewage to another WWTP, such as the Village  
180 of Richton Park or Thorn Creek Basin Sanitary District.
  - 181 3. Remove the Village of Monee capacity from the Aqua WWTP.  
182 This can be accomplished by the Village of Monee delivering their  
183 sewage to another provider or constructing their own WWTP.
  - 184 4. Construct another WWTP in another location in the area, thus  
185 having 2 plants capable of treating sewage.

186  
187 Aqua is currently considering each of the above options as a long  
188 term solution. In the short term, Aqua will be filing for a WWTP re-

189 rating with the IEPA. This will increase the WWTP capacity in the  
190 short term and allow Aqua to continue to provide service until a long-  
191 term solution is finalized.

192 In addition, Aqua is in discussions with the Thorn Creek Basin  
193 Sanitary District ("Thorn Creek) to potentially sell part of its sewer  
194 system. In particular, Aqua is proposing to sell its sewer system east  
195 of 1-57, but continue to provide sewer service west of 1-57. All of the  
196 certificated area Aqua is requesting to be added to its existing  
197 certificated area is west of 1-57. Thorn Creek would provide the  
198 needed capacity for treating the sewage for Aqua west of 1-57. The  
199 details are not finalized at this time and discussions are on going.  
200

201 In response to WD 4.01 Aqua stated that it cannot cease to provide bulk  
202 wastewater treatment service due to the IEPA verbally specifying that Aqua must  
203 continue providing wastewater service due to environmental concerns. A  
204 meeting was held on July 25, 2006 where Al Keller, Permit Section Manager for  
205 the IEPA told Aqua that they could not discontinue service.  
206

207 After reading the Company's supplemental direct testimony Staff sent out  
208 additional data requests. In its responses, Aqua indicated that it decided  
209 internally to file for re-rating on February 2006 and that is when it requested an  
210 engineering study. The actual re-rating filing was completed on March 19, 2007  
211 (Response to Staff Data Request Staff 1.01). Aqua's supplemental direct  
212 testimony discussed five options it could undertake for a long-term solution to the  
213 sewer capacity issue (Rakocy, Supplemental Dir., pp. 3-4). In response to Staff  
214 data request WD 5.05 Aqua stated that its chosen solution is to sell the  
215 wastewater assets east of I-57 to Thorn Creek Basin Sanitary District and  
216 continue to operate the wastewater collection system west of I-57, with Thorn  
217 Creek providing the wastewater treatment for the area west of I-57. Aqua

218 suggested that this solution can be accomplished within approximately one year  
219 from reaching an agreement on the sale and treatment. Apparently Thorn Creek  
220 Basin Sanitary District has passed a resolution to condemn that portion of the  
221 Aqua sewer system. Because Aqua is under threat of condemnation by Thorn  
222 Creek, they do not believe additional work on the other alternatives is necessary  
223 at this time (Response to Staff Data Request, Staff 1.06).

224  
225 Additionally, in response to Staff data request Staff 1.06 Aqua provided a copy of  
226 the engineering study prepared by CDM that was completed on May 24, 2006.  
227 The study provides some insight into how long some options could take to  
228 implement. Aqua gave a timeline example for expanding the wastewater  
229 treatment plant (Phase 1 Project Implementation). The example assumed that  
230 Aqua submitted the engineering report/facilities plan to NIPC and IEPA by  
231 February 15, 2007, after the stream survey and public participation requirements  
232 were met. Aqua's example also assumes that IEPA's final response and  
233 approval of the National Pollutant Discharge Elimination System ("NPDES")  
234 permit application would occur by the end of August 2007. If the timelines  
235 discussed above were met, construction could then be completed by May 1,  
236 2009. If Aqua was to expand the wastewater treatment plant in a two step  
237 process employing an interim improvements expansion followed by the  
238 completion of the Phase 1 improvements expansion, it would be possible to have  
239 construction completed by August 2008. However, as discussed previously,  
240 Aqua's chosen solution is to sell the wastewater assets east of I-57 to Thorn

241 Creek Basin Sanitary District and continue to operate the wastewater collection  
242 system west of I-57.

243

244 **Q. How does Aqua's shortage of sewer capacity affect your decision on**  
245 **whether they should be granted a certificate in this case?**

246 A. From Aqua's data request responses it appears that Aqua is cognizant of the  
247 wastewater capacity needs and requirements of the University Park system.  
248 They have been told by the IEPA to continue providing wastewater service to  
249 Monee and they have new developers who are requesting service. In response  
250 to Staff data request WD 2.02 the Company stated that sewer capacity will be  
251 needed regardless of whether they are granted a certificate to serve the  
252 expanded area. In fact, if the increase in certificated area is not approved, only  
253 existing customers will be required to fund additional WWTP capacity (Response  
254 to Staff data request WD 2.02). Whereas if the increase in the certificated area is  
255 approved, the costs associated with constructing additional WWTP capacity can  
256 be spread across a larger customer base (Response to Staff data request WD  
257 2.02).

258

259 Aqua seems to be taking a proactive approach in its planning process for the  
260 sewer capacity shortage. It realizes that any type of expansion of facilities must  
261 take into account future growth. Aqua discussed in response to Staff data  
262 request WD 3.01 that although there are alternatives to the water and sewer  
263 service provided by Aqua (such as wells or community wells for water service

264 and a sewer lagoon treatment system with spray irrigation for sewer service), the  
265 developers and the Will County government prefer the Aqua regional water and  
266 sewer approach. The developer and governmental officials are concerned that if  
267 an alternative approach is selected, future environmental problems may occur.  
268 Additionally, it has been Staff's experience that many small systems end up  
269 looking for experienced water and sewer companies to take over their systems  
270 as IEPA regulations increase. Aqua pointed out that if they do not have the  
271 Expanded Area and do not plan for serving customers outside of their existing  
272 certificated area then appropriately sized water and sewer mains may not be  
273 installed and reliable service restricted to the area. This issue has been  
274 recognized by IEPA in their Facility Planning Area ("FPA") designation  
275 (Response to Staff Data Request WD 1.22).

276  
277 In response to Staff Data Request WD 5.04 Aqua stated that based on the  
278 current remaining plant capacity to serve 334 residential units and the anticipated  
279 re-rating which would rate Aqua as being capable of serving 650 additional  
280 residential units, Aqua could provide service for 10 years based on 95 new  
281 residential units per year. If the re-rating is not approved then Aqua could have  
282 sufficient capacity to provide service for 3.5 years based on 95 new residential  
283 units per year.

284  
285 Aqua has both short term and long term plans in place that will accommodate  
286 sewer capacity whether Monee is ultimately considered a customer or not. Even

287 if the re-rating is not approved, Aqua will have 3.5 years to solve their capacity  
288 problem and I believe Aqua has shown that they are taking the necessary steps  
289 to ensure sufficient sewer capacity is available for present and future customers.  
290 However, even though my direct testimony recommends that a sewer certificate  
291 be granted I reserve the right to re-examine the sewer certificate issue after  
292 reading testimony of Intervenors in this case.

293

294 **Q. Are there other municipalities or utilities in or near the proposed area that**  
295 **could provide service?**

296 A. In response to WD 1.15 Aqua stated that there are two municipalities within a  
297 reasonable distance of the requested Expanded Area. The Village of Frankfort  
298 and Village of Monee, are within 2-miles of the nearest point within the requested  
299 Expanded Area. However, the Village of Frankfort has requested that Aqua  
300 provide service in this area and the Village of Monee uses Aqua's sewer  
301 treatment plant for its sewage treatment and disposal.

302

303 The Village of Richton Park and the Thorn Creek Basin Sanitary District have  
304 wastewater treatment facilities but it is my understanding that Aqua is the  
305 designated FPA for wastewater.

306

307 There are no other Commission regulated public utilities in the area that could  
308 serve the proposed area.

309

310 Additionally, as required by 83 ILL. Adm. Code 200.150(b), Aqua has served a  
311 copy of the Petition on each municipality located partly or wholly within the  
312 Expanded Area, or with a corporate boundary that is within one and one-half  
313 miles of the Expanded Area. Aqua's notice of service of the Petition is on file  
314 with the Commission (Rakocy Direct Test., p. 8).

315

316 **Q. In your opinion, should the Company's proposed certificate area be**  
317 **approved?**

318 A. Yes. During my inspection on December 6-7, 2006 construction of subdivisions  
319 was ongoing and new development signs were posted throughout the proposed  
320 Expanded Area. It was apparent that development will continue to be occurring  
321 well into the future.

322

323 I recommend that the Commission approve the Company's proposed certificated  
324 service area, which is legally described in Exhibit 1.0, Exhibit C of Aqua Exhibit  
325 1.0.

326

327 **CERTIFICATE REQUIREMENTS (SECTION 8-406 OF THE ACT)**

328 **Q. Please explain what the requirements are for a public utility to receive a**  
329 **Certificate to construct facilities and/or to provide service to an area.**

330 A. Section 8-406(b) of the Public Utilities Act, states in part:

331 No public utility shall begin the construction of any new plant,  
332 equipment, property or facility which is not in substitution of any  
333 existing plant, equipment, property or facility or any extension or

334 alteration thereof or in addition thereto, unless and until it shall have  
335 obtained from the Commission a certificate that public convenience  
336 and necessity require such construction. Whenever after a hearing  
337 the Commission determines that any new construction or the  
338 transaction of any business by a public utility will promote the public  
339 convenience and is necessary thereto, it shall have the power to  
340 issue certificates of public convenience and necessity. The  
341 Commission shall determine that proposed construction will promote  
342 the public convenience and necessity only if the utility demonstrates:  
343 (1) that the proposed construction is necessary to provide adequate,  
344 reliable, and efficient service to its customers and is the least-cost  
345 means of satisfying the service needs of its customers; (2) that the  
346 utility is capable of efficiently managing and supervising the  
347 construction process and has taken sufficient action to ensure  
348 adequate and efficient construction and supervision thereof; and (3)  
349 that the utility is capable of financing the proposed construction  
350 without significant adverse financial consequences for the utility or its  
351 customers.  
352

353 **Q. Has Aqua demonstrated that the proposed certificate is necessary to**  
354 **provide adequate, reliable, and efficient service to customers within the**  
355 **proposed area?**

356 A. Yes. The Company's petition identifies the following developments as requesting  
357 water and sewer service: MCZ, Westbury Phase I, Westbury Phase II, Ted  
358 Development, Veridian, Shafer Parcel, Mill Creek, Belle Meade, Hidden Lake,  
359 and George Street. In response to Staff data request WD 1.25 Aqua provided  
360 letters from developers indicating their desire to have the Company provide water  
361 and sewer service to their respective developments. Some of the letters were  
362 from the developer to Aqua, some from Aqua to the developer, and one verbal  
363 contract.  
364

365 Also, In response to Staff data request WD 1.22 Aqua discussed the necessary  
366 considerations for their Facility Planning Area ("FPA") which is a sewage  
367 planning area designated by the Northern Illinois Planning Commission. The  
368 data request response stated:

369 Although there may not be definitive plans for the remainder of the  
370 area outside of the shown developments, Aqua as the regional water  
371 and sewer provider needs to plan to serve the water and sewer  
372 needs of the bigger area and therefore needs the expanded area  
373 added to its Certificate. The close proximity to the metropolitan area  
374 of Chicago, with excellent school systems, and reasonable cost of  
375 living has made the area attractive to persons relocating from the  
376 Chicago Metropolitan area. If Aqua does not have the expanded  
377 area and does not plan for serving customers outside of its existing  
378 certificated area then appropriately sized water and sewer mains  
379 may not be installed and reliable service restricted to the area. This  
380 issue has been recognized by IEPA in their Facility Planning Area  
381 ("FPA") designation. In order to plan appropriately to serve the  
382 requirements of the area Aqua should not be limited in its planning  
383 area to only known developments. In fact the area to the north of the  
384 existing certificated area is already within Aqua's FPA and Aqua is  
385 proposing to certificate this area so it matches its FPA designation.  
386 Aqua is filing with Northern Illinois Planning Commission ("NIPC") for  
387 the western area to be added to its FPA so appropriate planning can  
388 be done to serve the water and sewer requirements of the area. The  
389 area requested is large enough to plan accordingly for water and  
390 sewer service on a regional basis which is expected to continue to  
391 develop in the future.

392  
393 And in response to Staff data request WD 3.01 Company witness Rakocy stated:

394 New customers within the Expanded Area will most likely be located  
395 within the currently proposed subdivisions or future subdivisions.  
396 The developers' plans for these subdivisions are currently being  
397 reviewed by Green Garden Township and Will County officials. The  
398 developers will begin construction as they obtain the necessary  
399 government approvals. Before these developers can obtain the  
400 necessary governmental approvals, however, the developers must  
401 demonstrate that they are able to secure adequate water and sewer  
402 service, either from Aqua or from an alternative source. A developer  
403 obtaining water and sewer service from Aqua will be required to  
404 enter into a Standard Main Extension Agreement. These agreements

405 require that the developer pay for the construction cost and Aqua will  
406 pay to the developer 1 ½ times the estimated annual revenue from  
407 the Original Prospective Customers, as defined in the Standard Main  
408 Extension Rules at the time title to the Extension Mains is  
409 transferred. Developers who choose to take service from Aqua will  
410 want to enter into Standard Main Extension Agreements before  
411 finalizing their subdivision plans and submitting them for approval.  
412

413 Although there are alternatives to the water and sewer service  
414 provided by Aqua (such as individual wells or community wells for  
415 water service and a sewer lagoon treatment system with spray  
416 irrigation for sewer service), the developers and the Will County  
417 government prefer the Aqua regional water and sewer approach.  
418 The developers and government officials are concerned that if an  
419 alternative approach is selected, future environmental problems may  
420 occur. In addition, if an alternative system fails in the future, the  
421 solution would most likely be to interconnect to Aqua at that time. It is  
422 more cost-effective and efficient to build water and sewer facilities  
423 now than in the future, after the failure of an alternative system.  
424

425 Aqua has proven over the long existence of the company that it can  
426 and does provide adequate, reliable and efficient water and sewer  
427 service to its customers.  
428

429 During my inspection on December 6-7, 2006 construction of subdivisions was  
430 ongoing and new development signs were posted throughout the proposed  
431 Expanded Area. It was apparent that development will continue to be occurring  
432 well into the future. Additionally, as discussed above, there are no other  
433 Commission regulated public utilities in the area that could serve the proposed  
434 area.  
435

436 **Q. Has the Company demonstrated that the proposed extension of services is**  
437 **the least-cost method of providing water and sewer service to customers in**  
438 **the area proposed to be certificated?**

439 A. Yes. In response to Staff Data Request WD 3.01, Company witness Rakocy  
440 stated:

441 The developers obtaining water and sewer service from Aqua will  
442 be required to enter into a Standard Main Extension Agreement.  
443 These agreements require that the developer pay for the  
444 construction cost and Aqua will pay to the developer 1 ½ times the  
445 estimated annual revenue from the Original Prospective  
446 Customers, as defined in the Standard Main Extension Rules, at  
447 the time title to the Extension Mains are transferred. In addition,  
448 Aqua may decide, at its expense, to oversize the water and sewer  
449 mains to assure future reliable service. Once the Standard Main  
450 Extension Agreements are signed, the water and sewer mains  
451 would be designed by a professional engineer according to  
452 current acceptable standards. The plans would be reviewed by  
453 Aqua's in-house engineering department to assure that the plans  
454 meet applicable standards. Aqua's engineering department would  
455 also consider whether there are alternatives to the professional  
456 engineer's approach. Under Aqua's current purchasing program,  
457 the selected alternative would be bid by at least 3 construction  
458 companies. This process assures that the least cost is obtained  
459 for the construction.  
460

461 I believe Aqua has demonstrated that the proposed extension of services is the  
462 least-cost method of providing water and sewer service to customers in the  
463 Expanded Area.

464

465 **Q. Has Aqua demonstrated that it is capable of efficiently managing and**  
466 **supervising the construction process and has taken sufficient action to**  
467 **ensure adequate and efficient construction and supervision?**

468 A. Yes. In response to Staff data request WD 3.01 the Company stated that is was  
469 capable of efficiently managing and supervising the construction process due to  
470 its in house engineering department and its use of outside engineering  
471 companies for construction projects. Also, Aqua has professional engineers,

472 construction coordinators, CAD operators and drafting personnel on staff. Their  
473 staff routinely coordinates with outside engineering companies on design review,  
474 review of bids and construction inspection. They also use either in-house  
475 inspectors or contract inspectors to monitor construction in the field. Aqua stated  
476 that this coordinated effort between Aqua and outside engineering companies  
477 assures that adequate and efficient construction and supervision takes place on  
478 all main extension projects (Response to Staff data request WD 3.01).

479  
480 In my opinion, Aqua has demonstrated that its water and sewer systems are well  
481 operated and its equipment is well maintained. Additionally, Aqua is owned by a  
482 strong parent company, Aqua American, Inc. (merger approved in Docket No.  
483 98-0602), which I believe suggests that resources for supervision, operations,  
484 and plant facilities are available, if needed. Aqua American, Inc. provides water  
485 and sewer services to approximately 2.5 million residents in Pennsylvania, Ohio,  
486 Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine,  
487 Missouri, New York and South Carolina (<http://www.aquaamerica.com/>).

488  
489 However, it should be pointed out that during the inspection of Aqua's University  
490 Park water and sewer facilities it was noted that certain aspects of their water  
491 operations did not appear to be in compliance with regulatory requirements of the  
492 Commission. Aqua needed improvement in: establishing records for valve,  
493 hydrant, and service connections in accordance with Title 83 Illinois  
494 Administrative Code Section 600.140 (c) and 600.240; establishing meter

495 records in accordance with Title 83 Illinois Administrative Code Section 600.150;  
496 maintaining complaint records in accordance with Title 83 Illinois Administrative  
497 Code Section 600.170; maintaining interruption of service records in accordance  
498 with Title 83 Illinois Administrative Code Section 600.220 (c); and, establishing a  
499 meter-testing schedule in accordance with Title 83 Illinois Administrative Code  
500 Section 600.340. Staff sent a letter to the Company detailing these compliance  
501 issues and the Company replied that they would address each issue discussed  
502 by Staff.

503

504 **Q. Does the Company possess adequate financial resources to serve the**  
505 **needs of the water customers in the proposed area?**

506 A. The issue of financial resources is being addressed by Staff witness Rochelle  
507 Phipps.

508

509 **Q. Do you believe Aqua has met the requirements of Sections 8-406(b)(1) and**  
510 **(2) of the Public Utilities Act?**

511 A. Yes. As such, I recommend that the Commission grant Aqua a Certificate of  
512 Public Convenience and Necessity to provide water and sewer service for the  
513 proposed Expanded Area.

514

515 **VARIANCE FROM MAIN EXTENSION DEPOSIT RULES TO EXPAND**  
516 **WATER AND SEWER SYSTEM DEVELOPMENT CHARGES**

517 **Q. Please describe what a System Development Charge or “SDC” is.**

518 A. SDCs are charges that were implemented in Docket No. 03-0379 to facilitate  
519 development of an area that was approximately six square miles, extending for  
520 three miles directly west of Aqua's then existing water and sewer system.  
521 Manhattan-Monee Road bisects the Area : one parcel, three miles long by one  
522 mile wide, is north of Manhattan-Monee Road, and the other, in the same  
523 proportions, is south of Manhattan-Monee Road. Aqua paid to extend a 16"  
524 water main, 16 fire hydrants, and miscellaneous valves and fittings along  
525 Manhattan-Monee Road for three miles to the west of its facilities. The 16" water  
526 main was needed to meet the requirements of the customers to be served and to  
527 comply with good engineering principles. Along the same route, Aqua  
528 constructed two lift stations and the following gravity sewers and force mains:  
529 4,100 feet of 10" gravity sewer, 1,480 feet of 12" gravity sewer, 620 feet of 15"  
530 gravity sewer, 2,860 feet of 18" gravity sewer, 1,110 feet of 8" force main, and  
531 4,000 feet of 12" force main (Order Docket No. 03-0379).

532

533 **Q. Why were the SDCs implemented?**

534 A. The Company had five developers who wanted to build in the area and under  
535 Aqua's Rules and Regulations for water and sewer main extensions, a developer  
536 must deposit the cost of the main extension (in excess of 1 ½ times the original  
537 prospective customer revenue) to extend water and sewer mains to a proposed  
538 development. However, subsequent developers who did not own property  
539 abutting the original main could benefit from the original main extension without  
540 bearing any of the initial cost. Each of the developers was waiting for the other to

541 build so they would not have to pay for the mains. The SDCs were implemented  
542 to ensure that all who use the Manhattan-Monee mains, contribute to their cost  
543 (Rakocy Direct Test., p. 5 and Order Docket No. 03-0379).

544

545 **Q. What is the Company's SDC proposal in this case?**

546 A. Aqua is proposing to expand the applicability of the SDCs to certain sections of  
547 the proposed Expanded Area. The new sections include, Platt Sections 16, 21,  
548 26, 27, 28, SE one-quarter Section 9, SW one-quarter Section 10, and East one-  
549 half Section 33 (Response to Staff Data Request WD 1.23 and Petition, Aqua  
550 Exhibit 1.0, Exhibit B Revised). The developers in the new sections will construct  
551 water and sewer extension mains from the existing SDC Manhattan-Monee  
552 mains and therefore Aqua believes they should also pay a share of the cost  
553 (Rakocy Direct Test., p. 6).

554

555 **Q. What areas of the proposed Expanded Area will not have SDCs applicable**  
556 **to them?**

557 A. The areas of the proposed Expanded Area that will not have SDCs applicable to  
558 them are Platt Sections 6, 7, 12, West one-half Section 5, and West one-half  
559 Section 8 (Response to Staff Data Request WD 1.23).

560

561 **Q. What rules will apply to those areas of the Expanded Area that do not have**  
562 **SDCs applicable to them?**

563 A. Aqua's current Rules, Regulations and Conditions of Service (Water), Section 29  
564 (ILL.C.C, No. 47, Sec. 1, Original Sheet Nos. 32-33), and (Sewer), Section XI  
565 (ILL.C.C. No. 48, Sec. 1, Original Sheet Nos. 28-30), regarding main extensions  
566 would be applicable. The cost of the extension mains would be paid by  
567 applicants for the extensions and Aqua will pay the applicants 1 ½ times the  
568 estimated annual revenue from the Original Prospective Customers at the time  
569 title to the Extension Mains is transferred (Rakocy, Direct Test., p. 11).

570

571 **Q. Do you oppose Aqua's proposal to expand the SDCs to the proposed**  
572 **areas?**

573 A. No. The developers in the identified areas will be connecting to the original SDC  
574 Manhattan-Monee mains and will benefit from their existence. The proposed  
575 developments do not have access to any other water and sewer mains that could  
576 serve them. Additionally, inclusion of the Expanded SDC Area will reduce the  
577 SDC charges because the cost of the Manhattan-Monee mains will be spread  
578 over a larger customer base.

579

580 I therefore do not object to the Company expanding the application of the SDCs  
581 to Platt Sections 16, 21, 26, 27, 28, SE one-quarter Section 9, SW one-quarter  
582 Section 10, and East one-half Section 33.

583

584 **DEPRECIATION**

585 **Q. What depreciation rates is Aqua proposing to use for the Kemper Area?**

586 A. Aqua is proposing to use the same water and sewer depreciation rates that are  
587 currently in effect or as subsequently revised, for the University Park service area  
588 (Rakocy Direct Testimony, p. 12).

589

590 **Q. Do you agree with the Company's depreciation rate proposal?**

591 A. Since the proposed Expanded Area is going to be served by the University Park  
592 water and sewer facilities, I have no objection to Aqua using the same water and  
593 sewer depreciation rates. However, in response to Staff Data Request WD 5.07  
594 the Company provided a copy of their University Park service area water and  
595 sewer depreciation rates and some of the water depreciation rates do not appear  
596 to match the rates approved by the Commission. I have sent out a follow-up data  
597 request and propose that the Company address the differences in water  
598 depreciation rates in their rebuttal testimony.

599

600 **RULES AND REGULATIONS**

601 **Q. Under what rules, regulations and conditions of service will the Expanded**  
602 **Area be served?**

603 A. The Company's current Rules, Regulations and Condition of service tariffs for  
604 water (ILL. C.C. No. 47, Section No. 1) and sewer (ILL. C.C. No. 48, Section No.  
605 1) will be applicable to the Expanded Area (Response to Staff Data Request WD  
606 3.02).

607

608 **Q. Do you agree with the Company's proposal to use current Rules,**  
609 **Regulations and Conditions of Service tariffs that are on file with the**  
610 **Commission for customers of the Expanded Area?**

611 A. Yes. The Company's current Rules, Regulations and Conditions of Service  
612 tariffs that are on file with the Commission have been approved by the  
613 Commission for the University Park service area and should be used for the  
614 Expanded Area.

615  
616 **Q. What rules will Aqua follow for the extension of water and sewer mains?**

617 A. Aqua will follow its current Commission approved Water Rules, Regulations and  
618 Conditions of service tariffs, Ill. C.C. No. 47, Section No. 1, Original Sheet Nos.  
619 32-33, and Sewer Rules, Regulations and Conditions of service tariffs ILL.C.C.  
620 No. 48, Section No. 1, Original Sheet Nos. 28-30. (Rakocy Direct Test., p. 11).

621  
622 With reference to the size of the mains proposed and how the cost difference  
623 between an 8-inch main and a larger size would be handled, the Company stated  
624 in response to Staff Data Request WD 1.14:

625 All water mains installed under the Standard Main Extension  
626 Agreement are eight inches (8") in diameter, unless there is a  
627 development specific need for a larger water main. This would  
628 normally occur at an industrial subdivision requiring greater flows  
629 than residential or a residential subdivision which requires a long run  
630 of water main and fire flows cannot be met with an 8" water main.  
631 Under these conditions the developer would pay of the over sizing of  
632 the water main. The company may according to good engineering  
633 practice decide to over size water mains for future growth, and if the  
634 company so decides the company would pay for the over sizing  
635 costs of the water main.

636

637 Additionally, Aqua stated that ratepayers are not responsible to pay for  
638 the main extensions that will serve the water and sewer requirements of  
639 the proposed developments in the Expanded Area. The developers will  
640 enter into Standard Main Extension Agreements and pay for the  
641 extensions to service their respective developments. Aqua will pay for  
642 the standard refunds as provided for within its tariffs. If Aqua  
643 determines that over sizing is required for future service needs in the  
644 larger area then Aqua will pay for the over sizing cost. The mains will  
645 be financed by the developers (Response to Staff Data Request WD  
646 1.28).

647

648 **RECOMMENDATIONS**

649 **Q. What are your recommendations to the Commission with respect to Aqua's**  
650 **Petition?**

651 A. I recommend the Commission find that:

652

653 (1) Aqua has demonstrated that the proposed certificate is necessary to provide  
654 adequate, reliable, and efficient service to customers within the Expanded  
655 Area;

656

657 (2) Aqua has demonstrated that the proposed extension of services is the least-  
658 cost method of providing water and sewer service to customers in the  
659 Expanded Area;

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- (3) Aqua has demonstrated that it is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision;
- (4) The water and sewer depreciation rates currently in effect, or as subsequently revised, for the University Park service area should be applicable to the Expanded Area;
- (5) Aqua’s requested variance from the main extension provisions specified in its Rules, Regulations and Conditions of Service for Water (Ill. C.C. No. 47, Rule 28) and Sewer (ILL. C.C. No. 48, Rule XI) and the water and sewer System Development Charge (“SDC”) tariffs applicable to the University Park service area should be approved, the SDCs would apply to Platt Sections 16, 21, 26, 27, 28, SE one-quarter Section 9, SW one-quarter Section 10, and East one-half Section 33;
- (6) The Company’s University Park water and sewer service area Rules, Regulations and Conditions of Service tariffs should be applicable to the Expanded Area; and
- (7) The Company’s proposed certificated service area, which is legally described in Exhibit 1.0, Exhibit C of Aqua Exhibit 1.0, should be approved.

683

684 **CONCLUSION**

685 **Q. Does this conclude your direct testimony?**

686 **A. Yes, it does.**