

Direct Testimony

Of

William R. Johnson

Water Department

Financial Analysis Division

Illinois Commerce Commission

Illinois-American Water Company

Petition for Issuance of an Expanded Certificate of Public
Convenience and Necessity to Operate A Water Supply and
Distribution System and Wastewater Collection and Treatment System Pursuant to
Section 8-406 of the Public Utilities Act;

And for approval of provisions related to water and wastewater
Plant investment and refunds; a variance from the provisions of Rule 16;
Accounting entries, depreciation rates, and water and wastewater rates.

Docket No. 06-0782

February 28, 2008

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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. I have also completed three Society of Depreciation Professionals
15 courses: Basic Depreciation, Life and Net Salvage Analysis, and Preparing and
16 Defending a Depreciation Study.

17

18 In September 1994, I was assigned to the Commission’s Public Utilities Division
19 as an Economic Analyst for the Rates Department. In that capacity I reviewed
20 and analyzed filings by electric, gas, water, and wastewater utilities with regard to
21 cost of service and rate design. I made recommendations to the Commission on
22 such filings and participated in docketed proceedings as assigned. In January
23 2000, I was reassigned to the Water Department of the Financial Analysis

24 Division as an Economic Analyst. My duties include: 1) evaluating rate filings; 2)
25 inspecting water and wastewater facilities for compliance with Commission rules;
26 3) assisting the Consumer Services Division in handling inquiries and complaints,
27 upon request; 4) evaluating testimony presented by utilities; and 5) testifying as a
28 Commission Staff witness (“Staff”) in rate proceedings, applications for
29 certificates of public convenience and necessity, applications for reorganizations,
30 and other formal proceedings which include water and/or wastewater related
31 issues.

32

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

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

36

37 **PURPOSE OF TESTIMONY**

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

39 A. On December 8, 2006, Illinois-American Water Company (“IAWC” or the
40 “Company”) filed a Petition (“Petition”) for a Certificate of Public Convenience
41 and Necessity (“Certificate”) to construct, operate and maintain a water supply
42 and distribution system and wastewater collection and treatment system in
43 McHenry County, Illinois (The terms Wastewater and Sewer are used
44 interchangeably throughout the testimony and are intended to have the same
45 meaning). An Amended Petition (“Amended Petition”) for the Certificate was
46 filed on May 21, 2007. IAWC is also requesting approval of certain provisions of

47 an Amended and Restated Asset Purchase Agreement between IAWC and
48 Terra Cotta Realty Company (“Agreement”); a variance from the provisions of
49 Metro Division’s Rule 16 with regard to the amount of the required construction
50 deposit for additional sewer treatment plant capacity; approval of certain
51 provisions of an agreement between IAWC and WS Land Partners – Prairie
52 Grove II, LLC (“Westminster Agreement”); approval of accounting entries;
53 approval of depreciation rates; and, approval to apply the rates of the Chicago
54 Metro Division for water and wastewater service.

55

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

57 A. The purpose of my testimony is to recommend to the Commission whether or
58 not: (i) IAWC providing water and wastewater service to the proposed area,
59 situated in McHenry County, Illinois, meets the public convenience and necessity
60 requirements of Section 8-406 of the Public Utilities Act (“Act”), and therefore
61 should be issued a Certificate, (ii) approval should be given to IAWC for their
62 water backbone plant proposals, (iii) IAWC should be granted a variance from
63 the provisions of the Chicago Metro Division’s Rule 16.04(c)(ii) for wastewater
64 backbone plant, (iv) approval should be given for proposed water main refunds,
65 (v) approval should be given for proposed wastewater main refunds, (vi) the
66 depreciation rates applicable to IAWC’s Terra Cotta service area should apply to
67 the proposed certificated area, and (vii) IAWC’s current rules, regulations, and
68 conditions of service should be applicable to the proposed certificated area.

69

70 **Q. What information have you reviewed with respect to IAWC's requests in the**
71 **instant proceeding?**

72 A. I have reviewed the Company's Petition and Amended Petition, including all
73 Exhibits attached thereto, the Direct Testimony of IAWC witness Bob Khan
74 (IAWC Exhibit 3.0), the Revised Direct Testimony of IAWC witness Michael
75 Hoffman (IAWC Exhibit 4.0), and data request responses. In addition, I
76 inspected the area for which IAWC is requesting a Certificate, along with the
77 water and sewer facilities that will serve them, on March 6, 2007.

78

79 **CERTIFICATE AREA**

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

81 A. IAWC is requesting a Certificate to construct, operate and maintain a water and
82 wastewater supply system consisting of approximately 235 acres of land
83 ("Expanded Area") which is adjacent to IAWC's Terra Cotta service area's
84 current certificated area (IAWC Ex. 3.0, pp. 6-7 and IAWC Response to Staff
85 Data Request WD 1.33). The Company's predecessor, Citizens Utilities
86 Company of Illinois ("CUCI"), was granted a Certificate of Public Convenience
87 and Necessity to serve the Terra Cotta service area in Docket No. 00-0194.
88 Pursuant to the Commission's Order in Docket No. 00-0476, IAWC assumed
89 CUCI's rights and obligations under the original certificate. The Original Terra
90 Cotta Area and newly acquired areas comprise approximately 1,679 acres
91 known as the "TC Land" (IAWC Response to Staff Data Request WD 5.01).
92 Terra Cotta sold 1,077 acres of the TC Land, known as "TC Acres" to Prairie

93 Grove 1078 SPE. The Expanded Area for which IAWC seeks a Certificate in this
94 proceeding encompasses the additional land acquired by Terra Cotta that is
95 contiguous to the Original Terra Cotta Area. Together, the Original Terra Cotta
96 Area and the Expanded Area compromise the "Combined Area" (IAWC Ex. 3.0,
97 pp. 6-7). The Company has provided a map and legal description attached to its
98 Amended Petition as Exhibits C and D, respectively and with the Direct
99 Testimony of Bob Khan. (IAWC Ex. 3.3 and 3.4, respectively)

100

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

103 A. No working easements will be required since the facilities will be installed next to
104 the right-of-way on the developers' property (IAWC Response to Staff Data
105 Request WD 1.04).

106

107 **Q. Does IAWC have an Agricultural Impact Mitigation Agreement with the**
108 **Illinois Department of Agriculture?**

109 A. Yes. In response to Staff Data Request WD 1.24 and WD 1.25, the Company
110 provided a copy of the Agricultural Mitigation Agreement and stated that they will
111 be complying with it.

112

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

114 A. On March 6, 2007, I conducted an onsite inspection of the water facilities. On
115 my inspection I observed that the water facility that is located in the original Terra

116 Cotta service area consists of two wells that treat water with chlorine gas, liquid
117 Hydrofluosilicic acid (fluoridation), and polyphosphate 319 (iron sequestering),
118 and a 500,000 gallon water-spheroid tower.

119
120 Currently all Terra Cotta wastewater is treated by the “old” plant which is a round
121 activated sludge “package” treatment plant. A larger, new treatment facility was
122 recently completed immediately south of the existing plant. The new facilities will
123 come on-line when enough new customers connect to the system. The old plant
124 is to be decommissioned when the new one is operational.

125

126 **Q. Does the Terra Cotta water facility have sufficient capacity to serve the**
127 **Expanded Area?**

128 A. In IAWC Ex. 3.0, Mr. Kahn testifies at page 10 that water capacity is sufficient to
129 accommodate the existing developments of Oak Grove and Cobblestone, and
130 anticipated development in the TC Land over the next several years. Also, in
131 response to Staff Data Request WD 1.19, the Company stated that the current
132 water system is capable of serving 4,950 population equivalents (“P.E.”), the
133 current P.E. service is 843 P.E., the additional proposed certificate area will
134 require 1,425 P.E., which equates to excess capacity of 2,682 P.E.

135

136 As such, it appears that IAWC has sufficient water capacity to serve the
137 proposed Expanded Area.

138

139 **Q. Does the Terra Cotta sewer facility have sufficient capacity to serve the**
140 **Expanded Area?**

141 A. Yes. In response to Staff Data Request WD 1.20 the Company stated that:
142 “Capacity of the current plant is 10,000 P.E. Reserved for Terra Cotta (including
143 current usage) is 4,000 P.E., leaving 6,000 P.E. available to serve the additional
144 235 acres. Projected usage in the 235 acres is 843 P.E.”

145
146 It appears that IAWC has sufficient wastewater capacity to serve the proposed
147 Expanded Area.

148
149 **Q. Are there other municipalities or utilities in or near the proposed area that**
150 **could provide service?**

151 A. Company witness Khan’s direct testimony, Ex. 3.0, page 8, states that “...there is
152 no municipal corporation or other entity willing or able to provide water or sewer
153 service to the Expanded Area.” The Commission regulated utilities in the vicinity
154 are Crystal Clear Water Company, Holiday Hills Utilities, Inc., Killarney Water
155 Company, McHenry Shores Water Company, Nunda Utility Company, and Walk-
156 up Woods Water Company. However, none of these utilities provide wastewater
157 service and none of the utilities have shown an interest in serving the area or
158 been requested by the developers to do so. Additionally, IAWC currently
159 provides service in the area and it would be cost prohibitive for the other utilities
160 to extend mains and potentially add capacity to serve the additional customers.

161

162 As required by 83 ILL. Adm. Code 200.150(b), IAWC has served a copy of the
163 Petition on each municipality located partly or wholly within the Expanded Area,
164 or with a corporate boundary that is within one and one-half miles of the
165 Expanded Area. IAWC's notice of service of the Petition is on file with the
166 Commission (IAWC Ex. 3.0 at 8).

167

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

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

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

172 No public utility shall begin the construction of any new plant,
173 equipment, property or facility which is not in substitution of any
174 existing plant, equipment, property or facility or any extension or
175 alteration thereof or in addition thereto, unless and until it shall have
176 obtained from the Commission a certificate that public convenience
177 and necessity require such construction. Whenever after a hearing
178 the Commission determines that any new construction or the
179 transaction of any business by a public utility will promote the public
180 convenience and is necessary thereto, it shall have the power to
181 issue certificates of public convenience and necessity. The
182 Commission shall determine that proposed construction will promote
183 the public convenience and necessity only if the utility demonstrates:
184 (1) that the proposed construction is necessary to provide adequate,
185 reliable, and efficient service to its customers and is the least-cost
186 means of satisfying the service needs of its customers; (2) that the
187 utility is capable of efficiently managing and supervising the
188 construction process and has taken sufficient action to ensure
189 adequate and efficient construction and supervision thereof; and (3)
190 that the utility is capable of financing the proposed construction
191 without significant adverse financial consequences for the utility or
192 its customers.

193
194 (220 ILCS 5/8-406(b))
195

196 **Q. Has IAWC demonstrated that the proposed certificate is necessary to**
197 **provide adequate, reliable, and efficient service to customers within the**
198 **proposed area?**

199 A. Yes. The Company anticipates that approximately 1,805 additional residential
200 units will be constructed (IAWC Ex. 3.0 at 8). The occupants will require water
201 and wastewater service, and Terra Cotta and Westminster (WS Land Partners –
202 Prairie Grove III, LLC) have contracted with IAWC to provide service. The
203 Company does not have a basis to project a precise level of future
204 governmental, retail, and commercial development, but it expects governmental
205 (school), retail and other commercial entities will be developed within the
206 Expanded Area as residential development occurs (*Id.* at 9). In response to Staff
207 Data Request WD1.33 the Company stated that the Expanded Area is adjacent
208 to the existing certificated area and is not served by another utility. It also stated
209 that expansion from the current area is logical, reliable and an efficient means of
210 providing service to the Expanded Area.

211
212 Also attached to Mr. Khan's Direct Testimony, IAWC Ex. 3.0, are two
213 agreements, the Restated Asset Purchase Agreement with Terra Cotta Realty
214 Co., IAWC Ex. BK 3.1 and 3.2, and the Westminster Swanson Land Partners II,
215 LLC Agreement, IAWC Ex. BK 3.2, which is evidence of the developer's request
216 for service.

217

218 During my inspection on March 6, 2007, construction of subdivisions was
219 ongoing and new development signs were posted throughout the proposed
220 Expanded Area. It was very apparent that development will continue to be
221 occurring well into the future. Additionally, and as discussed above, there are no
222 other Commission regulated public utilities in the area that could serve the
223 proposed area.

224

225 **Q. Has the Company demonstrated that the proposed extension of services is**
226 **the least-cost method of providing water and wastewater service to**
227 **customers in the area proposed to be certificated?**

228 A. Yes. In response to Staff Data Request WD 1.33, Company witness Khan
229 stated that the Company manages construction of backbone facilities using a
230 competitive bidding process and it ensures that cost incurred for the facilities will
231 be the least cost approach. Additionally, construction of both water and
232 wastewater plant facilities are subject to inspection and monitoring by IAWC
233 (IAWC Ex. 3.0 at 11 and 13).

234

235 I believe that IAWC has demonstrated that the proposed extension of services is
236 the least-cost method of providing water and wastewater service to customers in
237 the Expanded Area.

238

239 **Q. Has IAWC demonstrated that it is capable of efficiently managing and**
240 **supervising the construction process and has taken sufficient action to**
241 **ensure adequate and efficient construction and supervision?**

242 A. Yes. IAWC has consistently demonstrated that its water and wastewater
243 systems are well operated and its equipment is well maintained. Additionally,
244 IAWC is a subsidiary of American Water Works Company which is more than
245 100 years old, and has subsidiaries in 16 States with nearly 6,900 employees
246 (<http://www.illinoisamerican.com>). In my opinion, this suggests that resources for
247 supervision, operations, and plant facilities are available if needed.

248

249 Additionally, the Company stated that they employ construction managers and
250 engineers who are experienced in managing backbone plant construction
251 efficiently. Policies and procedures are in place to ensure efficient construction
252 and supervision. All construction by Terra Cotta and Westminster (under the
253 Agreements) will be in accordance with plans and specifications approved by
254 IAWC. Also, IAWC will monitor and inspect all construction (IAWC Response to
255 Staff Data Request WD 1.33).

256

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

259 A. The issue of financial resources is being addressed by Staff witness Janis
260 Freetly.

261

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

264 A. Yes. As such, I recommend that the Commission grant IAWC a Certificate of
265 Public Convenience and Necessity to provide water and wastewater service for
266 the proposed Expanded Area, which is legally described in IAWC EX BK 3.4
267 Parcels A1, A2, A3 and A4.

268

269 **REQUEST FOR APPROVALS**

270 **Q. Is IAWC asking for Commission approval of the Agreement and**
271 **Westminster Agreement?**

272 A. No, and Staff is not recommending approval of the Agreements. IAWC has
273 asked for approval of certain provisions of the Agreements as they pertain to
274 variances from Commission Rules and Company tariffs, which Staff addresses in
275 its testimony.

276

277 **REQUESTED APPROVALS FOR WATER BACKBONE PLANT**

278 **Q. Please explain what approvals IAWC is seeking with respect to water**
279 **backbone plant.**

280 A. First, IAWC is asking for approval of Section III.B.1 of the Agreement, which
281 modifies the water refund methodology approved in the Order for Docket No. 00-
282 00194 for the Terra Cotta Water Backbone Plant. The modification provides for
283 per P.E. refunds as customers attach throughout the original Terra Cotta Area
284 plus the newly-acquired areas (TC Land) rather than in only the Original Terra

285 Cotta Area (IAWC Ex. 3.0 at 14). Second, IAWC seeks approval of provisions of
286 Section IV of the Agreement, which describes the agreed arrangements for the
287 funding of additional water backbone plant (IAWC Ex. 3.0 at 15).

288

289 **Q. Please discuss IAWC's first water backbone plant request that deals with**
290 **water refunds.**

291 A. IAWC's Original Asset Purchase Agreement with Terra Cotta stated that the
292 reimbursement payments or refunds for the Terra Cotta Water Backbone Plant
293 would be determined by dividing the actual cost of the Terra Cotta Water
294 Backbone Facilities by the number of P.E.s that can be served by the backbone
295 facilities. The refund was to be made to Terra Cotta as customers from the
296 Original Terra Cotta Area attached to the system. Under the proposed Asset
297 Purchase Agreement the refund would be paid as customers from both the
298 Original Terra Cotta Area and the newly-acquired area attach to the system (*Id.*
299 at 14).

300

301 **Q. Do you object to the Company's proposal?**

302 A. No I do not. Including the newly acquired area into the Original Terra Cotta Area
303 refund mechanism allows Terra Cotta to potentially collect refunds in a more
304 timely fashion. The additional acreage has been obtained by Terra Cotta and
305 the plant facilities originally built by Terra Cotta and transferred to IAWC will be
306 serving the newly acquired area. Therefore it makes sense for Terra Cotta to get

307 refunds for connection to the plant facilities by customers of the newly acquired
308 area.

309

310 **Q. Please discuss IAWC's second water backbone plant request.**

311 A. The Original Asset Purchase Agreement between IAWC and Terra Cotta
312 requires Terra Cotta's consent for use of the Terra Cotta Water Backbone Plant
313 outside the Original Terra Cotta Area. The proposed Asset Purchase Agreement
314 requires IAWC to provide additional water backbone plant for the TC Land
315 without investment by Terra Cotta and Terra Cotta has agreed that the water
316 backbone plant can be used to serve any portion of the Combined Area outside
317 the Original Terra Cotta Area without their consent, to the extent that the
318 capacity of such facilities is adequate (IAWC Ex. 3.0 at 15).

319

320 **Q. Do you object to the Company's proposal?**

321 A. No. I agree with IAWC that the flexibility in the use of the Terra Cotta Water
322 Backbone Plant will allow it to more efficiently serve customers in the expanded
323 area.

324

325 **REQUESTED APPROVAL FOR WASTEWATER BACKBONE PLANT**
326 **(VARIANCE FROM CHICAGO METRO DIVISION RULE 16.04(c)(ii)**

327

328 **Q. Please explain what approval IAWC is seeking with respect to wastewater**
329 **backbone plant.**

330 A. IAWC's current Rule 16(c)(ii) requires that IAWC pay a refund to the developer
331 as customers connect to the wastewater plant. The per customer refund amount

332 is equivalent to the estimated amount of annual treatment revenue to be
333 received from each customer. IAWC is requesting a variance from Rule 16 and
334 in its place is proposing an alternative which is to provide an investment in the
335 amount of \$322,202 for the Existing TC Wastewater Backbone Facilities and
336 Initial Plant Expansion. This amount is intended to cover the obligation that
337 IAWC, as successor to Citizens, has to refund the cost advanced to Citizens for
338 the TC Sewer Backbone Plant under the terms of the Order in Docket 00-0194
339 and related Appellate Decision, and provide a reasonable level of investment in
340 the Initial Plant Expansion (*Id.* at 16). Terra Cotta constructed the Original
341 Wastewater Plant in 1973 and upgraded it in 1996-97 at a cost of approximately
342 \$449,221. The \$322,202 investment amount specified in the Agreement consists
343 of the \$86,309 refund of the cost advanced for the TC Wastewater Backbone
344 Plant, and a \$235,893 investment in the Initial Plant Expansion (*Id.*).

345

346 **Q. Please explain what obligation IAWC is referring to with respect to the**
347 **Order in Docket No. 00-0194.**

348 A. The Order in Docket No. 00-0194 stated that IAWC must give refunds for sewer
349 backbone plant to Terra Cotta. The Commission concluded that the principles of
350 83 Ill. Adm. Code Section 600.370(a) would apply in evaluating proposed levels
351 of developer contribution for sewer backbone plant. The Company, in Docket
352 No. 00-0194, requested approval of an agreement between itself and Terra
353 Cotta whereby no refunds were to be given for sewer backbone plant and Staff
354 argued that refunds should be given. The Commission agreed with Staff, which

355 was upheld by the Illinois Appellate Courts. (*IAWC v. ICC*, 331 Ill. App. 3d 1030,
356 1037; 772 N.E.2d 390, 396; (2nd Dist. 2002))

357

358 **Q. Is IAWC proposing to give refunds for sewer backbone plant in this case?**

359 A. Yes. IAWC is proposing to provide an investment/refund of \$322,202 to Terra
360 Cotta. The investment consists of an \$86,309 refund of the cost for the Terra
361 Cotta sewer backbone plant, and a \$235,893 investment in the initial plant
362 expansion (IAWC Ex. 3.0 at 16).

363

364 **Q. Do you object to the Company's wastewater backbone plant proposal?**

365 A. No. IAWC's proposal provides a total investment/refund amount of \$322,202
366 which meets the Commission's guideline for providing refunds for wastewater
367 backbone plant. It will also provide Terra Cotta with a guaranteed refund
368 amount. Under IAWC's current Rules (Rule 16.04(c)(ii), IAWC would pay a
369 refund to the developer as customers connect to the wastewater plant. The per
370 customer refund amount is equivalent to the estimated amount of annual
371 treatment revenue to be received from each customer, which is estimated to be
372 \$327.48 per residential customer. Assuming 2,070 new residential customers
373 attach in the 10 year period, under Rule 16 the potential refund amount would be
374 approximately \$677,883 (*Id.* at 17). However, many times developments do not
375 reach their anticipated full capacity or the 10 year refund time period that is
376 followed in Rule 16 is passed before the developments are completely built.
377 IAWC's proposed investment/refund provides guaranteed money upfront to

378 Terra Cotta, while at the same time the investment/refund amount is below the
379 level that Metro Division customers might otherwise be required to support in
380 rates if Rule 16 were followed and full-build out were to occur.

381

382 **REQUESTED APPROVALS FOR WATER MAIN REFUNDS**

383 **Q. What is IAWC's proposal for water main refunds according to the**
384 **Westminster Agreement?**

385 A. Westminster will construct water mains for the TC Acres in accordance with
386 provisions consistent with terms of the Standard Water Rules of the Metro
387 Division's Rules, Regulations and Conditions of Service (*Id.* at 13). The
388 Company proposes to refund to Westminster, for each new customer that
389 connects to Westminster water mains and taking service within the TC Acres,
390 during the first ten-year period following construction of Westminster water
391 mains, an amount equal to one and one-half times the average annual water
392 revenue paid to IAWC by other similarly situated customers (*Id.* at 18 and IAWC
393 Ex. BK 3.2, "Westminster Agreement", Section E, p. 7). These refunds would be
394 paid to Westminster during the first ten-year period following transfer of the
395 Westminster water mains. The total amount refunded would not exceed the total
396 cost to Westminster of the construction costs of the water mains (*Id.*).

397

398 **Q. Do you object to IAWC's proposed Westminster water main refund**
399 **proposal?**

400 A. The refund mechanism follows the Company's current Rules, Regulations and
401 Conditions of Service tariffs; I do not object.

402

403 **Q. What is IAWC's proposal for water main refunds as stated in the Agreement**
404 **with Terra Cotta Realty Co.?**

405 A. The Agreement states:

406 "Illinois-American will pay to Terra Cotta an amount equal to 1
407 ½ times the first year water revenues (gross water revenues
408 less any surcharges or taxes) of a typical residence for each
409 new residential customer connected in the Original Terra
410 Cotta Area for the first time and in service for a period of one
411 year. For purposes of this paragraph, typical residential
412 usage shall be the average actual residential usage for single
413 family homes and townhomes in the Original Terra Cotta
414 Area. For new commercial customer connections in the
415 Original Terra Cotta Area, Illinois-American shall pay to Terra
416 Cotta 1 ½ times the actual first year's water revenue after the
417 first full year of service. At the end of each year, payments
418 shall be made by Illinois-American to Terra Cotta within 30
419 days after Terra Cotta requests payment from Illinois-
420 American for new, qualifying customer connections as defined
421 in this paragraph. Illinois-American shall make these
422 payments to Terra Cotta, for customers which connect to
423 water mains constructed by Terra Cotta in the Original Terra
424 Cotta Area, for the period of ten years that commenced on
425 July 1, 2000 and expires on June 30, 2010, after which no
426 further refunds will be due under the Section III(B)(3)."
427 (Agreement, Section III B(3), p. 6)

428

429 **Q. Do you object to IAWC's proposed water main refund proposal as outlined**
430 **in the Agreement with Terra Cotta Realty Co.?**

431 A. No, I do not object. The water main refund proposal follows IAWC's current
432 Rules, Regulations and Conditions of Service tariffs that are applicable to main
433 extensions.

434

435 **REQUESTED APPROVAL FOR WASTEWATER MAIN REFUNDS**

436 **Q. What is IAWC’s proposal for Westminster wastewater main refunds?**

437 A. Westminster will construct, at its expense, wastewater collection mains within the
438 Westminster Land and transfer them to IAWC. (IAWC Ex. 3.0 at 18) IAWC will
439 then refund to Westminster an amount determined in accordance with the
440 “Sewer Refund Methodology” approved in Docket No. 01-0645. The Sewer
441 Refund Methodology provides refunds to the developer based upon one and
442 one-half times the amount of estimated per customer annual sewer collection
443 service revenue from a customer similarly situated to each “Original Prospective
444 Customer” (those customers who sign contracts for at least one year’s sewer
445 service and guarantee to the Company that they will take sewer service at their
446 premises within thirty days after the date sewer service is available), and
447 contracts for at least one year of sewer service, commencing within 30 days after
448 the date service is first available. The total amount of the refund paid to the
449 developer could not exceed the total cost of construction of the wastewater
450 mains (*Id.* at 19). Because the Sewer Refund Methodology is considered a
451 special contract under IAWC’s Rule 11.01(m) of their Rules, Regulations and
452 Conditions of Service tariffs, IAWC must receive Commission approval.

453

454 **Q. Do you agree with the Company’s wastewater main refund proposal?**

455 A. I have no objection to IAWC's proposal. It parallels the water main refund
456 mechanism prescribed by 83 Ill. Adm. Code 600.370(b) and was approved by
457 the Commission in Docket No. 01-0645.

458

459 **Q. Besides the approvals requested with reference to the Agreement and**
460 **Westminster Agreement, what methodology will IAWC follow with respect**
461 **to water and sewer mains?**

462 A. The Company has stated that the contribution/refund provisions of the Standard
463 Water Rules and Standard Sewer Rules will apply in connection with the
464 construction of water and sewer mains in the Combined Area (*Id.* at 18-19).
465 With reference to the size of the mains proposed and how the cost difference
466 between an eight inch main and a larger size would be handled, the Company
467 stated in response to Staff Data Request WD 1.15 that proposed water mains
468 will range in size from 8" to 12". The developers will pay for the additional cost of
469 larger mains required for domestic and fire protection needs of the development.

470

471 **DEPRECIATION**

472 **Q. What depreciation rates is IAWC proposing to use in the Expanded Area?**

473 A. IAWC is proposing to use the Chicago Metro Division depreciation rates for the
474 Combined Area, as currently in effect or as subsequently revised. The
475 depreciation rates were last evaluated in Docket No. 02-0690 and are attached
476 as IAWC Exhibit MJH 4.2 (IAWC Ex. 4.0 at 4).

477

478 **Q. Do you object to the Company's depreciation rate proposal?**

479 A. I have no objection to IAWC using the same depreciation rates that are currently
480 in effect for the Chicago Metro Division, which includes the Original Terra Cotta
481 Area.

482

483 **RULES AND REGULATIONS**

484 **Q. What water and sewer rules, regulations and conditions of service will be**
485 **applicable to the Expanded Area?**

486 A. The Company's existing Chicago Metro service area Rules, Regulations and
487 Condition of service tariffs for water (ILL.C.C. No. 4) and sewer (ILL.C.C. No. 5)
488 will be applicable to the Expanded Area (IAWC Response to Staff Data Request
489 WD 1.30).

490

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

494 A. Yes. The Company's current Rules, Regulations and Conditions of Service
495 tariffs that are on file with the Commission have been approved by the
496 Commission for the Original Terra Cotta service area and should be used for the
497 Expanded Area.

498

499 **RECOMMENDATIONS**

500 **Q. What are your recommendations to the Commission with respect to IAWC's**
501 **Petition?**

502 A. I recommend the Commission find that:

503

504 (1) IAWC has demonstrated that the proposed certificate is necessary to provide
505 adequate, reliable, and efficient service to customers within the Expanded Area;

506

507 (2) IAWC has demonstrated that the proposed extension of services is the least-cost
508 method of providing water and sewer service to customers in the Expanded
509 Area;

510

511 (3) IAWC has demonstrated that it is capable of efficiently managing and
512 supervising the construction process and has taken sufficient action to ensure
513 adequate and efficient construction and supervision;

514

515 (4) The Company's proposed certificated service area, which is legally described in
516 IAWC EXHIBIT 3.0, IAWC EX BK 3.4, should be approved;

517

518 (5) IAWC's water backbone plant proposals should be approved;

519

520 (6) IAWC's wastewater backbone plant proposal (Variance from Chicago Metro
521 Division Rule 16.04(c)(ii)) should be approved;

522

523 (7) IAWC's water and wastewater main refund proposals should be approved;

524

525 (8) The depreciation rates currently in effect, or as subsequently revised, for the
526 Chicago Metro Division service area should be applicable to the Expanded Area;
527 and

528

529 (9) The Company's Chicago Metro Division's water and sewer service area Rules,
530 Regulations and Conditions of Service tariffs should be applicable to the
531 Expanded Area.

532

533 **CONCLUSION**

534 **Q. Does this conclude your prepared direct testimony?**

535 **A. Yes, it does.**

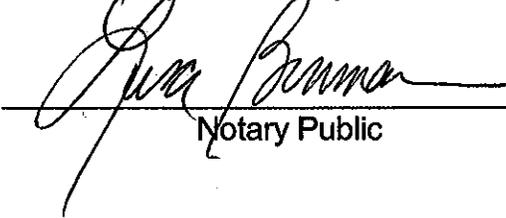
VERIFICATION

I, William R. Johnson, being first duly sworn, depose and state that I am a Economic Analyst in the Water Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Direct Testimony of William R. Johnson; that I have personal knowledge of the information stated in the foregoing Direct Testimony; and that such information is true and correct to the best of my knowledge, information and belief.



William R. Johnson
Illinois Commerce Commission

Subscribed and sworn to before me
this 28th day of February, 2008.



Notary Public