

**DIRECT TESTIMONY**

**OF**

**THOMAS Q. SMITH**

Water Department

Financial Analysis Division

Illinois Commerce Commission

**ILLINOIS-AMERICAN WATER COMPANY**

Application for a Temporary and Permanent Certificate of  
Public Convenience and Necessity to Provide Water and  
Sanitary Sewer Service to a Parcel in DuPage County,  
Illinois, Pursuant to Section 8-406 of the Public Utilities Act.

Docket No. 08-0083

May 21, 2008

1 WITNESS IDENTIFICATION

2 Q. Please state your name and business address.

3 A. My name is Thomas Q. Smith. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

5  
6 Q. Please describe your present position and related responsibilities.

7 A. I am presently employed as an Economic Analyst in the Water Department of the  
8 Financial Analysis Division of the Illinois Commerce Commission (“ICC” or the  
9 “Commission”). My responsibilities include reviewing and analyzing tariff filings  
10 related to rates, rules, regulations, and conditions of utility service; reviewing  
11 applications for certificates of public convenience and necessity; reviewing  
12 information regarding the prudence of Qualifying Infrastructure Plant (“QIP”)  
13 investment costs; conducting inspections of the records and the physical facilities  
14 of water and sewer public utilities; reviewing requests for general increases in  
15 rates for water and sewer service; reviewing tariff filings related to purchased  
16 water surcharge riders and information sheets; and presenting expert witness  
17 testimony in docketed proceedings before the Commission. Prior to my transfer  
18 to the Water Department, I served as an auditor in the Commission’s Accounting  
19 Department.

20  
21 Q. Please describe your background and professional qualifications.

22 A. I received a Bachelor of Arts Degree in Accounting from Michigan State  
23 University. I am a Certified Public Accountant licensed to practice in Illinois,

24 Michigan, and Wisconsin. My prior experience includes seven years as an  
25 auditor with the Michigan Public Service Commission. Subsequently, I was  
26 employed by Wisconsin Southern Gas Company in the initial capacity of Senior  
27 Accountant - Rate Specialist and later as Controller. I am a member of the  
28 American Institute of Certified Public Accountants and the American Water  
29 Works Association.

30

31 Q. Have you previously testified before regulatory bodies?

32 A. Yes, I have testified on many occasions before the Illinois Commerce  
33 Commission, the Michigan Public Service Commission, and the Public Service  
34 Commission of Wisconsin. During my career, I have testified regarding revenue  
35 requirement, accounting, cost of capital, cost of service, rate design, and  
36 operational issues.

37

38 PURPOSE OF TESTIMONY

39 Q. What is the purpose of this proceeding?

40

41 A. On February 1, 2008, Illinois-American Water Company ("Illinois-American",  
42 "IAWC", or the "Company") filed an Application with the Commission for a  
43 Temporary and Permanent Certificate of Public Convenience and Necessity  
44 ("Application") to provide water and sanitary sewer services to a parcel in  
45 DuPage County, Illinois, pursuant to Section 8-406 of the Illinois Public Utilities  
46 Act (the "Act"). As part of its Application, Illinois-American requested a

47 Temporary Certificate of Public Convenience and Necessity, which the  
48 Commission granted on March 26, 2008.

49

50 Q. What is the purpose of your testimony in this phase of the proceeding?

51 A. The purpose of my testimony is to review Illinois-American's request for a  
52 Permanent Certificate of Public Convenience and Necessity ("Certificate") to  
53 provide water and sanitary sewer services to a parcel in DuPage County, Illinois  
54 ("proposed certificated service area"), as provided by Section 8-406 of the Act;  
55 the Company's proposed certificated service area; and the Company's current  
56 Rates, Rules, Regulations, and Conditions of Service tariffs for water and  
57 sanitary sewer services.

58

59 PUBLIC CONVENIENCE AND NECESSITY

60 Q. What criteria did you use to review public convenience and necessity pursuant to  
61 Section 8-406 of the Act?

62 A. I used Section 8-406(b) of the Act, which states, in part:

63 No public utility shall begin the construction of any new plant,  
64 equipment, property or facility which is not in substitution of any  
65 existing plant, equipment, property or facility or any extension or  
66 alteration thereof or in addition thereto, unless and until it shall have  
67 obtained from the Commission a certificate that public convenience  
68 and necessity require such construction. Whenever after a hearing  
69 the Commission determines that any new construction or the  
70 transaction of any business by a public utility will promote the public  
71 convenience and is necessary thereto, it shall have the power to  
72 issue certificates of public convenience and necessity. The  
73 Commission shall determine that proposed construction will  
74 promote the public convenience and necessity only if the utility  
75 demonstrates: (1) that the proposed construction is necessary to  
76 provide adequate, reliable, and efficient service to its customers

77 and is the least-cost means of satisfying the service needs of its  
78 customers; (2) that the utility is capable of efficiently managing and  
79 supervising the construction process and has taken sufficient action  
80 to ensure adequate and efficient construction and supervision  
81 thereof;...  
82

83 Q. Is the proposed construction necessary to provide adequate, reliable, and  
84 efficient water and sanitary sewer services to the proposed certificated service  
85 area?

86 A. Yes. Based on my review, including the Direct Testimony of Bob Khan, IAWC  
87 EXHIBIT NO. BK-1.0, I conclude that the Company's construction, operation, and  
88 maintenance of the proposed water and sanitary sewer facilities are necessary to  
89 provide adequate, reliable, and efficient service to the customer to be located  
90 within the proposed certificated service area. The Company currently provides  
91 adequate, reliable, and efficient water and sanitary sewer services to customers  
92 within its Chicago-Metro Division service area.

93

94 Q. Does the Company's water system currently have sufficient capacity to meet the  
95 estimated demand from the commercial customer to be served within the  
96 proposed certificated service area without constructing additional water  
97 production facilities?

98 A. Yes. Based on Mr. Khan's testimony, IAWC EXHIBIT NO. BK-1.0, lines 97  
99 through 110, this customer's estimated demand for water service approximates  
100 0.002 million gallons per day ("MGD") and current capacity in the system is rated  
101 at 1.500 MGD. Historically, average and peak demands on this water system are  
102 0.475 MGD and 0.712 MGD, respectively. The Company's water system has

103 adequate capacity to provide service to this commercial customer without further  
104 construction.

105

106 Q. Does the Company's sanitary sewer system currently have sufficient capacity to  
107 meet the estimated demand from the commercial customer to be served within  
108 the proposed certificated service area without constructing additional sanitary  
109 sewer facilities?

110 A. Yes. Illinois-American will provide sanitary sewer collection service. Sanitary  
111 sewer treatment service will be provided by the DuPage County Department of  
112 Public Works. Based on Mr. Khan's testimony, IAWC EXHIBIT NO. BK-1.0, lines  
113 97 through 110, this commercial customer has a requirement of approximately  
114 12.5 population equivalents for sewer capacity. The customer will be connected  
115 to an existing 8-inch sanitary sewer main, which will provide adequate capacity.  
116 The DuPage County Department of Public Works has approved this commercial  
117 property for sanitary sewer treatment service.

118

119 Q. Is the proposed construction the least-cost means of satisfying the water and  
120 sanitary sewer services needs of the customer within the proposed certificated  
121 service area?

122 A. Yes. The Company's proposed construction of the water and sanitary sewer  
123 facilities constitutes the least-cost means of satisfying the service needs of the  
124 customer within the proposed certificated service area. The proposed  
125 certificated service area is contiguous to and surrounded by the existing Illinois-

126 American Chicago-Metro Division, DuPage District certificated service area. It is  
127 cost-efficient for an existing utility in the area to extend its water and sanitary  
128 sewer mains rather than have a new entity come into the area to establish  
129 service. Thus, duplication of facilities and unnecessary costs can be avoided.  
130 As noted in Mr. Khan's testimony, IAWC EXHIBIT NO. BK-1.0, lines 141 through  
131 143, no other public water or sanitary sewer utilities are presently serving, or are  
132 willing and able to provide service to the proposed certificated service area. No  
133 municipal corporation is willing to provide service to the proposed certificated  
134 service area.

135

136 Q. Is the Company capable of efficiently managing and supervising the construction  
137 process incident to the provision of service to the proposed certificated service  
138 area?

139 A. Yes. The Company is capable of efficiently managing and supervising the  
140 construction necessary to serve the proposed certificated service area. Illinois-  
141 American is the largest investor-owned public water and wastewater utility in  
142 Illinois and has many years of experience managing and supervising this type of  
143 construction.

144

145 Q. In your opinion, does the Company have a need for a Certificate to provide water  
146 and sanitary sewer services to the proposed certificated service area in DuPage  
147 County, Illinois?

148 A. Yes. The construction, ownership, operation, and maintenance by the Company  
149 of the water and sanitary sewer facilities are necessary and appropriate to serve  
150 the proposed certificated service area in DuPage County, and the Company's  
151 provision of water and sanitary sewer services to the public in the proposed  
152 certificated service area will promote the public convenience and is necessary  
153 thereto. The Company has satisfied the requirements set forth in Sections 8-  
154 406(b)(1) and (2) of the Act.

155

156 PROPOSED CERTIFICATED SERVICE AREA

157 Q. Why is the Company presently seeking a Certificate to serve the proposed  
158 certificated service area?

159 A. The commercial operation, Ness Exotic Wellness Center, at 1007 Maple Avenue,  
160 Lisle, Illinois and IAWC have entered into a water and sanitary sewer services  
161 connection agreement that requires the Company to serve the proposed  
162 certificated service area. The property was formerly served by private well and  
163 septic tank system.

164

165 Q. Please describe the Company's proposed certificated service area.

166 A. The proposed certificated service area is identified in Exhibit B of the Application  
167 in this proceeding. As discussed in IAWC EXHIBIT NO. BK-1.0, lines 157  
168 through 159, the proposed certificated service area consists of approximately  
169 0.42 acres located in Block 13 of Arthur T. McIntosh & Company's Lisle Farms.

170

171 Q. In your opinion, should the Company's proposed certificated service area be  
172 approved?

173 A. Yes. I recommend that the Commission approve the Company's proposed  
174 certificated service area, which is described in Exhibit B of the Application. I  
175 inspected and reviewed the Company's proposed certificated service area on  
176 April 2, 2008. The proposed certificated service area appears to be properly  
177 defined and I found no deficiencies in the Company's infrastructure or service.  
178

179 RATES, RULES, REGULATIONS, AND CONDITIONS OF SERVICE TARIFFS

180 Q. Which Rates, Rules, Regulations, and Conditions of Service tariffs does the  
181 Company propose to apply to the customer within the proposed certificated  
182 service area for water and sanitary sewer services?

183 A. Mr. Khan, in his Direct Testimony, IAWC EXHIBIT NO. BK-1.0, lines 117 through  
184 120 and 125 through 128, has proposed that the customer be subject to the  
185 Rates, Rules, Regulations, and Conditions of Service tariffs for water and  
186 sanitary sewer services on file with the Commission and in effect and applicable  
187 to the Chicago-Metro Division of Illinois-American.  
188

189 Q. Have you reviewed the Company's current Rates, Rules, Regulations, and  
190 Conditions of Service tariffs for water and sanitary sewer services?

191 A. Yes, I have reviewed the Company's current Rates, Rules, Regulations, and  
192 Conditions of Service tariffs for water and sanitary sewer services for the  
193 Chicago-Metro Division.

194 Q. Do you recommend that the Company's current Rates, Rules, Regulations, and  
195 Conditions of Service tariffs for water and sanitary sewer services as applicable  
196 to the Chicago-Metro Division be applied in the proposed certificated service  
197 area?

198 A. Yes.

199

200 Q. Will the proposed certificated service area be subject to the Purchased Water  
201 Surcharge Rider?

202 A. Yes. Illinois-American purchases Lake Michigan water from the DuPage Water  
203 Commission for its DuPage District service area. The proposed certificated  
204 service area will be subject to the Purchased Water Surcharge Rider for the  
205 DuPage District service area of the Chicago-Metro Division.

206

207 Q. What is your understanding with regard to the financing of the construction?

208 A. It is my understanding, based on IAWC EXHIBIT NO. BK-1.0, lines 89 through 93  
209 and 121 through 124, that the extension of water mains will be financed  
210 consistently with the Company's Rules, Regulations, and Conditions of Service  
211 tariffs for water service and with the requirements established in 83 Ill. Adm.  
212 Code 600 of the Commission's regulations and the extension of sanitary sewer  
213 mains will be financed consistently with the Company's Rules, Regulations, and  
214 Conditions of Service tariffs for sanitary sewer services and with the stipulations  
215 reached in Docket No. 01-0645.

216

217 CONCLUSION

218 Q. Please summarize your conclusions.

219 A. In my opinion, the Company has a need for a Certificate to provide water and  
220 sanitary sewer services to the proposed certificated service area in DuPage  
221 County, Illinois. The Company has met the requirements set forth in Section 8-  
222 406(b)(1) and (2) of the Act.

223

224 I recommend that the Commission approve the Company's proposed certificated  
225 service area, which is described in Exhibit B of the Application.

226

227 I further recommend that the Commission approve that the customer be subject  
228 to the Company's current Rates, Rules, Regulations, and Conditions of Service  
229 tariffs for water and sanitary sewer services applicable to the Chicago-Metro  
230 Division and the Company's Purchased Water Surcharge Rider of the DuPage  
231 District.

232

233 Q. Does this conclude your prepared direct testimony?

234 A. Yes, it does.