

DIRECT TESTIMONY

OF

PHILIP RUKOSUEV

RATES DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

RME ILLINOIS, L.L.C.

PETITIONS FOR ISSUANCE OF CERTIFICATES OF PUBLIC CONVENIENCE AND
NECESSITY TO PROVIDE ONSITE WASTEWATER, COLLECTION AND DISPERSAL
SERVICES TO PARCELS IN LAKE COUNTY, ILLINOIS, PURSUANT TO SECTION
8-406 OF THE ILLINOIS PUBLIC UTILITIES ACT

DOCKET NOS. 08-0490/08-0491 (CONSOLIDATED)

DECEMBER 2, 2008

1 **Q. Please state your name and business address.**

2 A. My name is Philip Rukosuev and my business address is 527 E. Capitol Avenue,
3 Springfield, IL 62701.

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

5 A. I am currently employed by the Illinois Commerce Commission (“ICC” or
6 “Commission”) as a Rate Analyst in the Rates Department of the Financial Analysis
7 Division. My responsibilities include rate design and cost of service analyses for
8 electric, gas, water and sewer utilities and the preparation of testimony on rates and
9 rate related matters.

10 **Q. How long have you been employed by the Illinois Commerce Commission?**

11 A. I have been employed by the Commission since September 2008.

12 **Q. Please discuss your educational and professional background.**

13 A. I received a BA in Economics/Business Administration from the University of Illinois
14 at Springfield (“UIS”) in May 2007. I am currently pursuing a Masters degree in
15 Accounting at UIS and working towards obtaining a CPA designation. I was
16 previously employed by the Illinois Manufacturing Association as a Management
17 Intern and by the Department of Healthcare and Family Services Weather Assistance
18 Division (Weatherization and LIHEAP) as a Fiscal Intern.

19 **Q. Have you previously testified before any regulatory bodies?**

20 A. No.

21 **Q. What is the purpose of your direct testimony?**

22 A. I will address the rates that RME Illinois, L.L.C. (“RME” or “Company”) customers
23 should pay if the Commission approves the Company’s request for a Certificate of
24 Public Convenience and Necessity to provide on-site wastewater collection and
25 dispersal services in Lake County, Illinois to the Falcon Crest subdivision (“Falcon
26 Crest”) in Lake Villa, Illinois and the Eastgate Estates subdivision (“Eastgate”) in
27 Long Grove, Illinois.

28 **Rate Design**

29 **Q. How many customers will RME serve in each subdivision?**

30 A. There are 44 customers in Falcon Crest and 9 customers in Eastgate Estate.

31 **Q. How did you develop your proposed rates?**

32 A. The rates were developed by dividing the respective annual revenue requirements
33 for each subdivision by the number of bills their customers receive over a year’s
34 period. My specific approach was to divide Staff’s recommended annual revenue
35 requirements for Falcon Crest and Eastgate by 12 months, and then divide the
36 respective resulting amounts by the corresponding 44 customers at Falcon Crest and
37 9 customers at Eastgate.

38 **Q. What is the source of the revenue requirements used in your rate calculation?**

39 A. I used Staff's total annual revenue requirement which is presented in Staff witness
40 Theresa Ebrey's Direct Testimony (ICC Staff Exhibit 2.0, Schedule 2.1, suffix FC for
41 Falcon Crest and suffix EG for Eastgate Estates).

42 **Q. What rates should Falcon Crest and Eastgate customers pay for wastewater**
43 **service?**

44 A. Falcon Crest customers should each pay a customer charge of \$181.08 per month
45 and Eastgate customers should pay a customer charge of \$297.34 per month to
46 recover the revenue requirement proposed by Staff in this proceeding.

47 **Q. Why is there a significant difference of \$116.26 per month between the rates**
48 **recommended for Falcon Crest and Eastgate?**

49 A. There are two reasons that account for this difference. First, there is a significant
50 difference in the cost to serve customers in the two areas. Specifically, Eastgate has
51 a higher rate base than Falcon Crest. The rate base per customer at Falcon Crest is
52 \$10,162 while it is \$18,409 at Eastgate. The Eastgate rate base per customer is 1.81
53 times the rate base per customer of Falcon Crest. A second reason is depreciation
54 expense. The annual depreciation expense component of the revenue requirement
55 allows a utility to recover its capital investment over the anticipated useful life of the
56 depreciable assets. Depreciation expense is \$423 per customer at Falcon Crest and
57 \$767 per customer at Eastgate Estates. As a result, the monthly depreciation expense
58 for Eastgate customers is 1.64 times the monthly Falcon Crest depreciation expense.

59 **Q. Is there an alternative method to determine rates for these two areas?**

60 A. Yes. The two service areas could be treated as one service area for ratemaking
61 purposes by combining their respective revenue requirements and charging all
62 customers in both service areas the same average rate, also known as Single Tariff
63 Pricing ("STP").

64 **Q. What is Single Tariff Pricing?**

65 A. Single tariff pricing "is the use of a unified rate structure for multiple water (or other)
66 utility systems that are owned and operated by a single utility, but that may or may
67 not be contiguous or physically interconnected." ("Consolidated Water Rates: Issues
68 and Practices in Single-Tariff Pricing," USEPA, September 1999, at vii).

69 **Q. Should the Falcon Crest and Eastgate revenue requirements be combined to**
70 **determine a single rate that would be applicable to all customers?**

71 A. No. The original plant cost per customer for Falcon Crest is \$18,841 while the original
72 plant cost per customer for Eastgate is \$28,556. Based on my analysis, combining
73 the costs of Falcon Crest and Eastgate would effectively transfer some of the costs of
74 the Eastgate system to the Falcon Crest customers who would get no benefit from
75 the transfer yet they would be paying for a portion of that system. Therefore, the
76 revenue requirements of both areas should not be combined to develop common
77 rates.

78 **Q. How do you reconcile your position with the Commission's previously stated**
79 **support of single tariff pricing for Illinois American Water Company ("IAWC")**

80 **to help spread the cost of major plant in service replacements or additions**
81 **across a larger customer base?**

82 A. The situations are not analogous. The purpose of single tariff pricing for IAWC is to
83 mitigate future rate increases, due to a possible large plant addition in a particular
84 year, for one group of customers, while increasing the rates of another group of
85 customers by averaging those costs of the large plant addition across multiple
86 service territories. Such a situation could occur if major plant additions are made to
87 IAWC service territories that are not connected to each other and occur in different
88 years. For example, a major plant addition in IAWC's Alton service territory would not
89 provide direct benefits to customers in IAWC's Peoria service territory. However, with
90 single tariff pricing, customers in the Peoria service territory would be charged the
91 same rates as those charged in the Alton service territory thereby smoothing the
92 rates, overall, to both groups of customers. Conversely, in a future year, a major plant
93 addition in the Peoria service territory would not have direct benefits to customers in
94 the Alton service territory, but under single tariff pricing the costs of the Peoria plant
95 addition would be shared by the Alton service territory customers who would pay the
96 same average rate as Peoria customers.

97 Additionally, Single tariff pricing should not be adopted in the RME service territories
98 because the customer base is so small and, the differential between the number of
99 customers (9 to 44) and the cost differential is so large (\$18,841 to \$28,556) that the
100 smoothing effect would unfairly place too great a price increase on the customers of
101 the larger of the 2 service territories.

102 **Q. Nevertheless, if the Commission adopts Single Tariff Pricing, what would**
103 **the resulting rate be?**

104 If the Commission adopts single tariff pricing for RME, combining Falcon Crest's and
105 Eastgate's revenue requirements to determine rates would result in the combined
106 average rate of \$200.82 per month for both Falcon Crest and Eastgate. For Falcon
107 Crest's 44 customers, or 83 % of the total combined customers, this would be an
108 increase of \$19.74 or 10.90% per month from the non-single tariff rates. For
109 Eastgate's 9 customers, or 17% of total combined customers, this would be a
110 reduction of \$96.52 or 32.46% per month from the non-single tariff rates. Combining
111 Falcon Crest and Eastgate revenue requirements to determine rates would amount to
112 a permanent subsidy for the small number of Eastgate customers at the expense of
113 the larger number of Falcon Crest customers, with little or no justification for the
114 subsidy.

115 **Q. Do you consider \$181.08, \$297.34, or \$200.82 per month for RME wastewater**
116 **collection and disposal services to be expensive?**

117 A. Yes. When rates are abnormally high there is a concern about consumer willingness
118 and ability to pay them. In comparison with other wastewater rates charged by
119 utilities regulated by the Commission, the RME rates under consideration in this
120 docket are very high. RME customers would pay between \$2,173 and \$3,568 per
121 year for wastewater service alone, which does not include water or any other utility
122 service. In order to place RME's rates in context, the following table shows a sample
123 of monthly residential wastewater rates currently in effect:

Service Area and Utility Name	Current Monthly Residential Rate for Wastewater Services
Ivanhoe Club development in Lake County - Aqua Illinois, Inc.	\$23.97 (Based on a charge of \$2.37 per 1,000 gal. assuming a 10,000 gal. usage)
Village of Hawthorn Woods in Lake County - Aqua Illinois, Inc.	\$40.00
Harbor Ridge subdivision in Lake County - Harbor Ridge Utilities, Inc.	\$43.02
Sundale Subdivision, Washington in Tazewell County - Sundale Utilities, Inc.	\$44.04 (Based on a flat rate of \$26.29 on the first 5,000 gal plus additional usage of 5,000 gal. at \$3.55 per gal.)
Lake of the Woods Estate Subdivision, Peoria County - Medina Utilities Corporation	\$41.56
Forestview Subdivision in Woodford County - Forestview Utilities Corporation	\$39.00
Applies to Portion of Vilage of Lakemoor, Lake County - Rockwell Utilities, LLC.	\$22.17

124

125 These rates range from 7.5% to 24.32% of RME's rates under Staff's revenue
 126 requirement recommendations whether or not the two service areas' revenue
 127 requirements are combined.

128 **Q. Please summarize the Commission's conclusion from Docket Nos. 07-0331/07-**
 129 **0332 (Consol.).**

130 A. The Commission's Final Order in Docket Nos. 07-0331/07-0332 (Consol.), which
 131 dealt with an identical request by RME, stated:

132 "We regard these rates to well exceed the boundaries of affordability and such
 133 rates could very likely pose an insurmountable barrier to anyone contemplating
 134 the purchase of a home in either the Falcon Crest or Eastgate Estates
 135 subdivision." (Order at 10)

136 In those previous dockets, the calculated monthly rates (agreed to by Petitioner) were
 137 \$166.56 for Falcon Crest and \$263.19 for Eastgate Estates. In fact, the calculated

138 rates in those previous dockets were even lower than the rates under consideration
139 in this docket. Furthermore, in Docket Nos. 07-0331/07-0332 (Consol.) the
140 Commission denied RME's request for a certificate of public convenience and
141 necessity because of the very high rates that the Company proposed.

142 **Q. What is your recommendation regarding RME's request for a certificate of**
143 **convenience and necessity?**

144 A. I recommend that RME's request for a certificate of public convenience and necessity
145 be denied by the Commission. The Company's proposal results in very high rates
146 that are not comparable to the rates of other sewer utilities in Illinois, are not just and
147 reasonable, and continue to be similar to the rates which the Commission rejected in
148 Docket Nos. 07-0331/07-0332 (Consol.).

149 **Q. If the Commission does approve RME's request for a certificate of public**
150 **convenience and necessity, please summarize your rate design**
151 **recommendations.**

152 A. If the Commission approves RME's request, I recommend the following:

- 153 1. Based on Staff's recommended revenue requirement in direct testimony,
154 Falcon Crest customers should each pay a customer charge of \$181.08 per
155 month and Eastgate customers should pay a customer charge of \$297.34 per
156 month
- 157 2. The revenue requirements of both areas should not be combined to develop
158 common rates.

159

Bill Form

160 **Q. What is a bill form?**

161 A. In order to collect revenues from customers, a utility provides a bill to its customers.

162 Generally, the bill contains various information including the customer's name and

163 address, the amount of customer usage, the rates being charged, taxes that are

164 being charged, definitions of billing terms and other various information. A bill form is,

165 basically, a generic representation of a customer's bill.

166 **Q. Does the Company currently provide a copy of its bill form as a filed tariff**
167 **sheet(s)?**

168 A. No, it does not.

169 **Q. Are there any requirements in the Public Utilities Act or Title 83 of the Illinois**
170 **Administrative Code regarding the provision of a copy of the Company's bill**
171 **form as a filed tariff sheet(s)?**

172 A. The PUA is silent on this matter. Part 600.160 (d) states:

173 "In addition to the above, each utility shall file with the Commission Water
174 Engineering Staff within 30 days from the date of this order, two copies of the bill
175 form presently in use. Each time said form is changed, the utility shall file 2
176 copies of the new form with the staff and, if required, file a copy with the
177 Commission."

178 **Q. What concerns arise when a bill form is not filed as a tariff sheet(s)?**

179 A. Currently, water and sewer utilities are required to provide their bill forms to the
180 Commission Water Engineering Staff only when the form changes, per Part 600.160
181 (d). However, under this rule, there is no public notice and no oversight of the
182 process pertaining to the bill form. If a customer, or other person, were to ask
183 questions about the bill, Staff has no public or approved bill form to reference. Having
184 the bill form as a filed tariff sheet(s) is desirable because it would provide openness
185 and transparency of billing information to the utility customers, to the Commission
186 and the general public.

187 **Q. What are you recommending with regard to the bill form?**

188 A. Electric and gas utilities are already required to have their bill forms filed as tariff
189 sheets. It is logical that water and sewer utilities should do likewise because it would
190 be useful to customers, the ICC Staff, and the Commission. It will provide greater
191 transparency and ease for both Staff and the public when issues arise and will
192 potentially increase efficiency in various administrative procedures. Therefore, I
193 request that Company provide a copy of its proposed bill form with its rebuttal
194 testimony in this proceeding, so that Staff may review it and make recommendations
195 for any suggested changes in Staff rebuttal testimony. In addition, I recommend that
196 the Commission require the Company to provide a copy of its bill form as a filed tariff
197 sheet(s).

198 **Effective Date of Filed Tariffs**

199 **Q. What should be the effective date of the Company's filed compliance tariffs?**

200 A. The Company's compliance tariffs should reflect an effective date not less than five
201 (5) business days after the date they are filed with the Commission. This amount of
202 time was utilized recently in Docket No. 07-0507 and Docket Nos. 07-0620, 07-0621
203 and 08-0067 (cons) and provides Staff with an appropriate number of days to review
204 the new tariff sheets and ensure that they comply with the Commission's order.

205 **Q. Does this conclude your prepared direct testimony in this proceeding?**

206 A. Yes, it does.